



August 21, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt the attached Resolution authorizing the issuance of bonds by the Long Beach Bond Finance Authority related to the prepayment of natural gas supply for a term of 30 years in an amount not to exceed \$1.3 billion; authorizing and approving contracts, agreements and other documents and actions relating thereto, and delegating authority to officers in connection therewith. (Citywide)

DISCUSSION

The Long Beach Gas and Oil Department (LBGO) operates California's largest municipally-owned natural gas utility (Utility). The Utility provides gas service to the residents and businesses of the cities of Long Beach and Signal Hill, along with small portions of several surrounding cities. As a gas utility, two of LBGO's primary responsibilities include reinvesting gas revenues into maintaining a safe pipeline delivery system and purchasing competitively-priced natural gas supplies on behalf of LBGO's 145,000 customers. LBGO anticipates challenges in meeting these responsibilities in the years to come based on status quo operations. Fortunately, LBGO has a recommended solution that will address these challenges to the benefit of LBGO's customers as well as the Utility.

Natural Gas Pipeline Infrastructure

LBGO's gas infrastructure includes 1,800 miles of underground pipeline, the bulk installed during the City's geographic expansion during the 1940s, 1950s, and 1960s. Industry pipeline standards, as well as LBGO's own experience, indicate that gas pipeline begins to experience dramatically increased leakage when the pipeline exceeds 60 years of age. Increased pipeline leakage can pose serious public safety issues, and is extremely expensive to repair or replace on an emergency basis.

As such, LBGO recently began a long-term pipeline replacement program to replace the small percentage of remaining gas pipeline installed during the 1920s and 1930s, and will soon concentrate on the replacement of the 1940s pipeline. This program is being funded through the use of ongoing gas utility revenues combined with commercial paper financing.

Expected future Utility revenues may not be sufficient to continue to fund the footage of aging pipeline that will need replacement over the next three decades when the bulk of LBGO's pipeline reaches the 60-year old threshold. Failure to obtain a substantial new funding source will require the gas utility to rely solely upon greatly reducing the Utility's annual transfer to the General Fund and/or surcharging LBGO's customers to pay for pipeline reinvestment.

Gas Commodity Price Challenge

With the natural gas industry deregulation of the mid 1980s, the natural gas commodity market was opened to competition. Since that time, LBGO has been purchasing the gas supply for its customers in this open competitive market and passing this cost directly to its customers. LBGO purchases approximately \$75 million of natural gas supplies annually on behalf of its customers and the City Charter requires it to charge its customers rates comparable to those charged by surrounding gas utilities in Southern California. The two primary benchmarks that LBGO is compared with are: 1) the industry-recognized first-of-the-month market index price at the California-Arizona border where most area gas purchases are consummated (CA Border Index); and 2) the Southern California Gas Company's monthly Core Procurement Price (SoCalGas CPP) which it charges to its residential and small commercial customers and is roughly comparable to the CA Border Index. Historically, LBGO has been largely successful in meeting or beating each of these two benchmarks.

However, there is the risk in the future that LBGO will not be as successful in meeting or beating these benchmarks, as well as meeting the equally important goal of obtaining a reliable long-term gas supply. In 2006, LBGO negotiated a three-year gas supply contract with Coral Energy Resources, L.P., (Coral) after issuing a Request for Proposals (RFP) to all major gas suppliers in the Southern California Market. These negotiations resulted in a price indexed to the market, discounted by \$0.04 per MMBtu with 50 percent of the gas supplied during the peak winter months at a fixed price of \$8.20 per MMBtu, which brought pricing protection to LBGO's customers during peak demand. The result has been mixed with the overall price of the gas supplied under this contract being slightly higher than that of the market and SoCalGas prices, largely due to the fixed price winter component. In the foreseeable future, long-term commitments for traditional gas supplies will be available only at very slight discounts off market indices and these resulting prices will inconsistently fluctuate above and below the prices charged by SoCalGas.

Natural Gas Prepay Program Solution

Fortunately, there is a long-term opportunity with mitigated risk that will allow LBGO to significantly reduce its gas purchase costs, provide significant funding for pipeline reinvestments and greatly decrease the current risk-exposure to open-market gas purchases. This opportunity is a natural gas prepay transaction whereby a municipal utility, using its ability to issue tax-exempt debt, enters into a firm, long-term gas supply contract far below the cost that is otherwise obtainable. Debt proceeds are paid upfront to the gas supplier in exchange for future gas deliveries at market prices minus a fixed discount. The discounted price is possible because the tax-exempt borrowing rate of the municipal utility is lower than the gas supplier's taxable cost of obtaining capital.

Municipal utility prepaid natural gas transactions financed with tax-exempt debt are not new and have been around since the 1990s. However, only a few transactions of relatively small size occurred before the transactions halted in 1999 when the Internal Revenue Service (IRS) began reviewing the transactions for appropriateness. In October 2003, the IRS issued new regulations that provided greater clarity on acceptable structures. Additional statutory support was provided by provisions of the Federal Energy Policy Act of 2005.

Increasing natural gas costs and price volatility caused municipal utilities to look into the need for enhanced risk management, firm long-term supply commitments, and opportunities to lower commodity costs. The regulatory and statutory safe harbors, combined with the improved economics created by the increased spread between taxable and tax-exempt interest rates, allowed municipal gas purchasers to again consider the benefits offered by natural gas prepay programs. In 2006, 11 natural gas prepay transactions were completed, involving nearly \$10 billion of tax-exempt bonds. In 2007, 16 gas prepay transactions have been, or are in the process of being completed, exceeding \$12 billion in total. In California, the cities of Roseville, Vernon, and the Sacramento Municipal Utilities District completed gas prepay transactions in 2007. Several other cities including Los Angeles, Pasadena, Burbank, Glendale, Anaheim, and Colton are currently in the process of jointly entering into a gas prepay transaction to provide natural gas to fuel the electric utility power plants.

To assist the City in looking further into potential risks and opportunities afforded by gas prepay transactions, the City interviewed and hired the best financial advisors, tax counsel, and bond counsel involved with these types of transactions in the nation. In February 2007, with this team in place, the City issued an RFP for a City natural gas prepay. Nine major financial institutions responded of which the City interviewed five finalists: Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch, and UBS. It was determined that the proposal package offered by Merrill Lynch provided the City with the greatest overall value combined with the best risk mitigation terms.

In the ensuing months, the City had negotiated with Merrill Lynch the details of the proposed gas prepay transaction as described below:

Gas Supply Volume – LBGO would purchase approximately eight billion cubic feet annually of prepaid natural gas supply from Merrill Lynch. This volume represents the gas utility's baseload supply that will be augmented first with local gas supplies, and any further volume demand met by incremental gas purchases from Coral.

Bond Issuance – Depending upon the financial market's forward curve of natural gas prices at the time of closure, the dollar amount of bonds issued will be up to \$1.3 billion, though the expected issuance is closer to \$1.2 billion.

Term – The negotiated term is for 30 years, commencing October 1, 2007. While a shorter term is available, savings are significantly enhanced as the term of the transaction is lengthened. Rating agencies do not see any meaningful credit concern associated with longer terms provided the utility is paying index-based prices rather than fixed prices. The transaction with Merrill Lynch will utilize an index-based price.

Price Discount – As mentioned previously, LBGO has two primary monthly pricing benchmarks: the CA Border Index and the SoCalGas CPP. The proposed prepay natural gas will be priced 50 percent against the CA Border Index and 50 percent against the SoCalGas CPP. Each of these will be discounted by a fixed amount, estimated to be \$0.70 and \$1.00 per MMBtu depending upon market conditions at the time the prepay transaction is consummated. To put this amount into perspective, LBGO's most recent competitive process for a long-term gas supply resulted in a discount of \$0.04 per MMBtu.

Cost Savings – The fixed price discount is expected to result in an estimated gas purchase cost savings of \$150 - \$200 million over the term of the transaction, or about \$5 - \$7 million annually.

Conduit Issuer – The conduit issuer will be the existing Long Beach Bond Finance Authority (LBBFA), a Joint Power Authority between the City of Long Beach and the Long Beach Redevelopment Agency. The LBBFA is the legal entity that has issued bonds for other City projects in the past. The LBBFA will also be used to contract with the gas commodity provider, Merrill Lynch Commodities, Inc. (MLCI).

It is important to note that if MLCI defaults under this transaction, the payment obligation to the bondholders is borne by Merrill Lynch as the bonds are non-recourse to the City and LBGO. However, the City's name would be associated with the bonds.

Risk Mitigation – With the release of the IRS' regulations in late 2003, combined with the recent upsurge in such transactions, prepay structures have evolved to minimize risk. These risk mitigation measures include:

Risk Scenario: MLCI defaults on gas delivery.

Mitigation: LBGO is only required to pay for actual gas delivered. In the case of a default by MLCI, the bondholders would have recourse solely against Merrill Lynch, not the City or LBGO. LBGO would then need to replace the void caused by the MLCI supply delivery failure by purchasing gas on the open market, such as is currently done by LBGO.

Risk Scenario: An MLCI gas delivery default causes LBGO to purchase replacement volumes.

Mitigation: Merrill Lynch makes LBGO financially whole for unrealized savings for the remainder of the transaction term, putting LBGO in a better position financially to purchase replacement volumes.

Risk Scenario: LBGO is unable to fully accept the agreed upon gas volumes.

Mitigation: MLCI will remarket the gas to qualified buyers (i.e., municipal customers) to ensure tax and regulatory compliance.

Risk Scenario: City's debt increased through the prepay transaction, negatively impacting the City's credit capacity.

Mitigation: The conduit issuer insulates the City's credit as the prepay bonds are not considered City debt by the rating agencies.

Risk Scenario: Long-term fixed pricing may consistently exceed market prices.

Mitigation: A gas commodity swap incorporated in this proposal exchanges the fixed price gas for market priced gas for the duration of the transaction.

Risk Scenario: The gas swap counterparty, BNP Paribas, fails to perform.

Mitigation: While the Guarantor, Merrill Lynch, bears the risk, the transaction may terminate as a result of BNP Paribas' failure; therefore, the savings guaranty is not applicable under this scenario. Should BNP Paribas' credit ratings fall, alternative replacement options under the documents are available.

Existing Gas Supply Agreements – LBGO currently purchases its gas supply from various small local gas producers and the bulk of its gas supply from Coral. To maximize cost savings and minimize risks, it is imperative that LBGO position the prepay gas as LBGO's baseload purchases. To accomplish this, it is necessary to amend or terminate the existing purchase contracts to recognize the baseload status of the prepay volumes.

LBGO notified its local producers that it intends to purchase the prepay volumes effective October 1, 2007, and that LBGO will continue to purchase the local supplier gas volumes if the local suppliers accept new terms that include a price equal to LBGO's lowest cost of gas purchased during the month of delivery; also, that LBGO's purchase of their volumes will be supplemental to the prepay volume purchased. LBGO will return to City Council in the near future with new contracts or amendments with these local suppliers.

LBGO's long-time supplier, Coral, has worked well with LBGO and Merrill Lynch to craft a solution for how to initiate the prepay volumes on October 1, 2007, despite the fact that the Coral supply contract still has approximately one and a half years remaining in its term. Under the existing contract, Coral supplies LBGO with the majority of its gas supply as well as various financial and operational services, including storage management, scheduling deliveries, load forecasting, and volume balancing. In a separate action, LBGO will seek City Council approval of several contracts with Coral that will allow Coral to continue to provide the various services and also allow LBGO to purchase at market prices any volumes needed, if any, above those supplied through the prepay transaction and the local gas suppliers.

Summary – The City hired an independent firm with extensive expertise in the fields of both energy and financial matters, Recon Research (Recon). The purpose in hiring Recon was to provide the City an unbiased view of the sagacity of entering into a gas prepay transaction from a financial risk/reward perspective as well as from a natural gas strategic standpoint. The conclusion of Recon's report states:

“The Long Beach gas prepaid purchase program appears to be a low risk transaction which can bring substantial benefits to the City's gas utility. It is an innovative use of the City's municipal bonding authority which is allowable under IRS regulation, and which should provide stable and cost-advantaged gas flows for baseload natural gas demands of LBGO.”

There are simply no other gas supply alternatives to the natural gas prepay transactions that provide similar cost savings, long-term supply security, minimal risk, and guaranteed competitive market price. Failure to take advantage of this program will leave LBGO and its customers subject to the uncontrolled market commodity prices, which are potentially millions of dollars greater than otherwise available under the prepay transaction. In addition, the prepay transaction will provide a source of funding for LBGO's pipeline replacement program that would otherwise need to be funded through a combination of reduction of money transferred to the General Fund and a surcharge upon LBGO's customers.

Accordingly, the City Council is being requested to adopt the attached resolution, which authorizes the issuance of the bonds for this transaction, and approves all related documents and contracts. A copy of the Preliminary Official Statement (which is the offering document sent to potential investors) is also attached for the City Council's review and consideration.

This matter was reviewed by Deputy City Attorney Richard Anthony on August 10, 2007 and by Budget and Performance Management Manager David Wodynski on August 13, 2007.

TIMING CONSIDERATIONS

City Council action is requested on August 21, 2007, as it is strategically desirable to issue the bonds prior to September when numerous competing natural gas prepay bond issuances are scheduled to come to market. The added competition for financing will reduce the obtainable savings for LBGO.

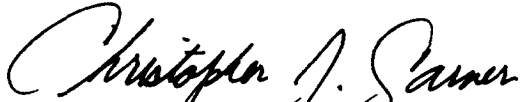
FISCAL IMPACT

Annually, LBGO purchases approximately \$75 million of natural gas commodity on behalf of its customers. The proposed gas prepay transaction will result in estimated annual cost savings of \$5 to \$7 million, or approximately \$150 to \$200 million over the next 30 years.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

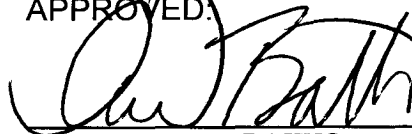


MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

CJG:ls

Attachments

APPROVED:



ANTHONY W. BATTS
CITY MANAGER



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Long Beach, California

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August 21, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

Re: Natural Gas Prepay Bond Issue – Compliance with Long Beach
Charter Section 1502

Pursuant to your request, this office has reviewed the proposed Natural Gas Prepay bond issue to determine whether it complies with Long Beach Charter Section 1502, which states:

“The rates to be charged users for any services or commodities supplied by any public utility owned and operated by the City shall be based upon the prevailing rates for similar services and commodities supplied or sold by other like utilities whether public or private, operating in the Southern California area.”

We are satisfied that the proposed structure of this transaction will have no effect upon the City’s ability to comply with the requirements of this section.

Very truly yours,

ROBERT E. SHANNON, City Attorney

By

Heather A. Mahood
Assistant City Attorney

HAM:fl

#07-03967

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST [], 2007

NEW ISSUES-BOOK-ENTRY ONLY

RATINGS: See "RATINGS" herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. In the opinion of Bond Counsel, interest on Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

[City Logo]	\$[]*		
	Long Beach Bond Finance Authority		
	Natural Gas Purchase Revenue Bonds		
\$[]*	\$[]*	\$[]*	\$[]*
Series 2007A	Series 2007B	Series 2007C	Series 2007D
(Fixed Rate)	(LIBOR Index Rate)	(SIFMA Index Rate)	(CPI Index Rate)

Dated: Date of Delivery

Due: November 15, as shown on the inside front cover

The Long Beach Bond Finance Authority (the "Issuer") is issuing its Natural Gas Purchase Revenue Bonds, Series 2007A (the "Series 2007A Bonds"), its Natural Gas Purchase Revenue Bonds, Series 2007B (the "Series 2007B Bonds"), its Natural Gas Purchase Revenue Bonds, Series 2007C (the "Series 2007C Bonds") and its Natural Gas Purchase Revenue Bonds, Series 2007D (the "Series 2007D Bonds," and together with the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds, the "Bonds") pursuant to a Trust Indenture, to be dated as of September 1, 2007 (the "Indenture"), by and between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds are being issued to (a) finance the prepayment of an approximate 30-year supply of natural gas for the City of Long Beach, California (the "City" or the "Municipality"), (b) fund a portion of the interest due on the Bonds through the first interest payment dates on the Bonds and/or the regularly scheduled payments due under the Interest Rate Swaps (as defined herein) and (c) to pay the costs of issuance of the Bonds, as described herein.

The Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchases and sales of the Bonds may be made in book-entry form only in denominations of \$5,000 and integral multiples thereof. Purchasers will not receive certificates from the Issuer or the Trustee representing their interest in the Bonds. The Series 2007A Bonds will bear interest at the fixed rates and mature on the dates set forth on the inside front cover. Interest on the Series 2007A Bonds will be payable semiannually on May 15 and November 15 of each year, commencing on May 15, 2008. The Series 2007B Bonds and the Series 2007C Bonds will bear interest at variable rates and mature on the dates set forth on the inside front cover. Interest on the Series 2007B Bonds and the Series 2007C Bonds will be payable on each February 15, May 15, August 15 and November 15, commencing on November 15, 2007. The Series 2007D Bonds will bear interest at variable rates and mature on the dates set forth on the inside front cover. Interest on the Series 2007D Bonds will be payable on the 15th day of each month, commencing on October 15, 2007. Interest on each series of Bonds will accrue from their delivery date. So long as the Bonds are held by DTC, the principal of, premium, if any, and interest due on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal, premium, if any, and interest to the DTC participants for subsequent disbursement to the Beneficial Owners (as defined herein) of the Bonds, as more fully described herein. See "APPENDIX L—BOOK-ENTRY-ONLY SYSTEM."

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "TERMS OF THE BONDS—Redemption" herein.

A portion of the proceeds of the Bonds will be used to prepay the costs of the acquisition of a specified supply of natural gas to be delivered over approximately 30 years under a Prepaid Natural Gas Purchase and Sale Agreement (the "Prepaid Gas Agreement"), by and between Merrill Lynch Commodities, Inc. (the "Seller" or "MLCP") and the Issuer. All of the gas purchased by the Issuer will be sold to the City pursuant to a Natural Gas Supply Agreement (the "Supply Agreement"), by and between the Issuer and the City and is expected to be sold by the City to its natural gas commercial and residential customers. The Seller is obligated to deliver specified daily quantities of gas to the Issuer, to make certain payments for any gas not delivered, to remarket gas not taken by the City and to make a termination payment upon any early termination of the Prepaid Gas Agreement. An early termination of the Prepaid Gas Agreement will result in the mandatory redemption of the Bonds. The payment obligations of the Seller under the Prepaid Gas Agreement are unconditionally guaranteed by Merrill Lynch & Co., Inc. (the "Guarantor"), as described herein. *The guarantee of the Guarantor does not constitute a guarantee of the Issuer's obligations with respect to the Bonds.* See "THE GAS SUPPLY ACQUISITION" and "THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE, THE INTEREST RATE SWAP GUARANTEE AND THE FUNDING GUARANTEE" herein.

THE BONDS WILL BE SPECIAL OBLIGATIONS OF THE ISSUER AND THE PRINCIPAL AND REDEMPTION PRICE OF, AND INTEREST ON, THE BONDS WILL BE PAYABLE SOLELY FROM THE REVENUES AND THE OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE AND WILL NOT CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE ISSUER. THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR LIEN OR CHARGE UPON, ANY PROPERTY OF THE ISSUER OR ANY OF ITS INCOME OR RECEIPTS EXCEPT THE REVENUES AND THE OTHER FUNDS PLEDGED PURSUANT TO THE INDENTURE WHICH ARE SUBJECT TO THE PROVISIONS OF THE INDENTURE PERMITTING THE APPLICATION THEREOF FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH THEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ISSUER, THE CITY, THE STATE OF CALIFORNIA, OR ANY OTHER PUBLIC AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS WILL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE ISSUER OR THE CITY TO LEVY OR PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF THE BONDS. THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE ISSUER, THE CITY, THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY (OTHER THAN THE SPECIAL OBLIGATION OF THE ISSUER AS PROVIDED IN THE INDENTURE).

The purchase and ownership of the Bonds involve investment risk and may not be suitable for all investors. This cover page is not intended to be a summary of the terms of, or the security for, the Bonds. Investors are advised to read this Official Statement in its entirety to obtain information essential to the making of an informed investment decision with respect to the Bonds, giving particular attention to the matters discussed under "CERTAIN BONDHOLDERS' RISKS" and "APPENDIX E—THE SERIES 2007D BONDS AND THE CPI RATE—Risk Factors Relating to the Series 2007D Bonds" herein.

* Preliminary; subject to change.
4810-4791-2705.5

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

The Bonds are offered, when, as and if issued by the Issuer and accepted by the Underwriter, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP. Certain legal matters will be passed upon for the Issuer and the City by the City Attorney of the City of Long Beach. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September [], 2007.

MERRILL LYNCH & CO.

Date of Official Statement:

**MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES,
YIELDS OR PRICES, CUSIP NUMBERS***

\$[_____] *
Long Beach Bond Finance Authority
Natural Gas Purchase Revenue Bonds
Series 2007A
(Fixed Rate)

Maturity Date (November 15)	Principal Amount	Interest Rate	Yield or Price	CUSIP Number†
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\$[_____] *
Long Beach Bond Finance Authority
Natural Gas Purchase Revenue Bonds
Series 2007B
(LIBOR Index Rate)¹

Maturity Date (November 15) ²	Principal Amount	Initial Interest Rate ¹	Interest Rate Spread ¹	Price	CUSIP Number†
				100%	
				100	
				100	

* Preliminary; subject to change.

¹ The Series 2007B Bonds will bear interest at the respective Initial Interest Rates from the date of delivery until, and including, November 14, 2007. On and after November 15, 2007, the Series 2007B Bonds will bear interest from the most recent interest payment date therefor to which interest has been paid or duly provided for, to the next succeeding (but not including) interest payment date therefor at a per annum rate equal to (a) 67% of the Three-Month London Interbank Offered Rate ("LIBOR") for such period plus (b) the applicable per annum Interest Rate Spread, provided that the interest rate on the Series 2007B Bonds may never exceed the maximum rate of 15% per annum.

² Subject to mandatory sinking fund redemption.

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\$[]*

Long Beach Bond Finance Authority
Natural Gas Purchase Revenue Bonds
Series 2007C
(SIFMA Index Rate)³

Maturity Date (November 15) ⁴	Principal Amount	Interest Rate Spread ¹	Price	CUSIP Number [†]
			100%	
			100	
			100	

\$[]*

Long Beach Bond Finance Authority
Natural Gas Purchase Revenue Bonds
Series 2007D
(CPI Index Rate)⁵

Maturity Date (November 15) ²	Principal Amount	Initial Interest Rate ³	Spread ³	Price	CUSIP Number [†]
				100%	
				100	
				100	

* Preliminary; subject to change.

³ The Series 2007C Bonds will bear interest during each Series 2007C Interest Period (as defined herein) at a per annum rate equal to (a) the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index for such Series 2007C Interest Period, plus (b) the per annum Interest Rate Spread, provided that the interest rate on the Series 2007C Bonds may never exceed the maximum rate of 15% per annum.

⁴ Subject to mandatory sinking fund redemption.

⁵ The Series 2007D Bonds will bear interest at the respective Initial Interest Rates from the date of delivery until, and including, October 14, 2007. On and after October 15, 2007, the Series 2007D Bonds will bear interest at the CPI Rate as described in "APPENDIX E—THE SERIES 2007D BONDS AND THE CPI RATE." The Series 2007D Bonds may not bear interest greater than a maximum rate of 15%. For a description of the CPI Rate and the calculation of interest on the Series 2007D Bonds, see "APPENDIX E—THE SERIES 2007D BONDS AND THE CPI RATE."

[†] Copyright 2007, American Bankers Association. CUSIP data is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies Inc. CUSIP numbers are provided only for the convenience of the reader. None of the Issuer, the City nor the Underwriter undertakes any responsibility for any changes to or errors in this list of CUSIP numbers.

**LONG BEACH BOND FINANCE AUTHORITY
BOARD OF DIRECTORS**

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Michael A. Killebrew, Vice-Chair
David S. Nakamoto

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Bonnie Lowenthal, Vice Mayor
Dee Andrews
Gary DeLong
Rae Gabelich
Val Lerch
Suja Lowenthal
Tonia Reyes Uranga
Patrick O'Donnell
Gerrie Schipske

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Anthony W. Batts, City Manager
Christine F. Shippey, Assistant City Manager
Robert E. Shannon, Esq., City Attorney
Larry Herrera, City Clerk
Michael A. Killebrew, Director of Financial Management, CFO
David S. Nakamoto, City Treasurer
Christopher J. Garner, Director, Long Beach Gas & Oil Department

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Financial Advisor

Public Financial Management Inc.
Los Angeles, California

Trustee

The Bank of New York Trust Company, N.A.
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the Issuer or the City to give any information or to make any representations in connection with the offer and sale of the Bonds, other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Issuer or the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor will there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. The information set forth in this Official Statement has been obtained from the Issuer and the City and other sources which are believed by the Issuer and the City to be reliable. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. See "INTRODUCTION—Forward-Looking Statements."

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the affairs of the Issuer or the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

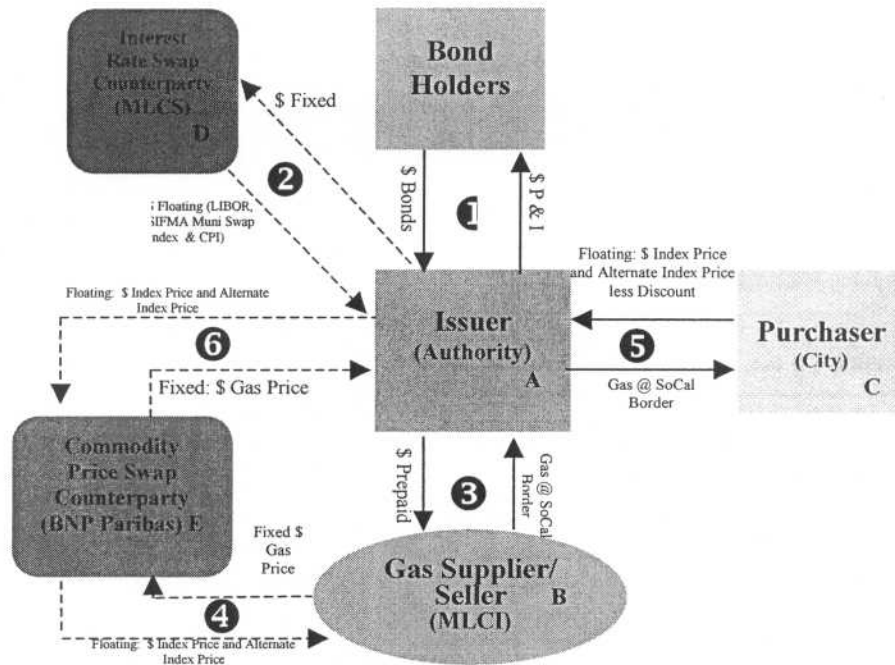
THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE, THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY COMMISSION. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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Summary of Prepaid Gas Financing Structure



Transaction Overview *

- ❶ The Issuer (A) will issue fixed and floating rate Bonds to fund a prepayment of an approximately 30-year supply of natural gas.
- ❷ The Issuer will enter into floating to fixed rate interest rate swaps with Merrill Lynch Capital Services Inc. (“MLCS”) (D) – to effectively fix its net interest rate expense for the floating rate Series 2007B Bonds, Series 2007C Bonds and Series 2007D Bonds.
- ❸ The Issuer will apply Bond proceeds to prepay the purchase price for an approximately 30-year supply of natural gas to be sold to the Issuer by Merrill Lynch Commodities Inc. (“MLCI”) (B). Under the Prepaid Gas Agreement, MLCI will be obligated (a) to deliver specified monthly quantities of gas to the Issuer for approximately 30 years, (b) to make payments for any gas not delivered based on the Index Price and the Alternate Index Price, and (c) to make or guaranty collection of a termination payment upon any early termination of the Prepaid Gas Agreement in whole or in part.
- ❹ MLCI will enter into two natural gas commodity price swaps with BNP Paribas, [acting through its New York Branch] (“BNP Paribas”) (E) – to facilitate MLCI’s ability to purchase at market prices the specified gas volumes required to be delivered each month throughout the term of the Prepaid Gas Agreement.
- ❺ Under the Supply Agreement, the Issuer will sell 100% of the gas delivered by MLCI to the City (C), at a price equal to the Index Price and the Alternate Index Price less a discount such that the month’s net proceeds under the Supply Agreement (net of swap payments and receipts and investment income) will allow the Issuer to make scheduled deposits to the Debt Service Fund to pay the principal of and interest on the Bonds and to pay all of its expenses.
- ❻ The Issuer will enter into two natural gas commodity price swaps with BNP Paribas (E) – to effectively fix the net price at which gas is sold to the City under the Supply Agreement before application of the price discount.

The cumulative effect of the Prepaid Gas Agreement, the Supply Agreement, the Interest Rate Swaps, the Issuer Commodity Swaps, and related documents is intended to enable the Issuer to receive dependable resulting monthly net revenues, regardless of changes in gas prices, interest rates or transportation costs, which are expected to be adequate, together with receipts (less payments made) under the Interest Rate Swaps, to pay debt service requirements on the Bonds and program expenses when due and to produce an operating margin that is passed through to the City.

* The illustration and information provided above are only a summary of certain information contained in this Official Statement and are qualified in their entirety by the more detailed information appearing elsewhere in this Official Statement. No person is authorized to detach this page from the Official Statement or to use it otherwise without the entire Official Statement.

OFFICIAL STATEMENT

\$[]*

Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds

\$[]*
Series 2007A
(Fixed Rate)

\$[]*
Series 2007B
(LIBOR Index Rate)

\$[]*
Series 2007C
(SIFMA Index Rate)

\$[]*
Series 2007D
(CPI Index Rate)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, table of contents and appendices, is to provide certain information in connection with the issuance and sale by the Long Beach Bond Finance Authority (the “*Issuer*”) of its \$[]* Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007A (the “*Series 2007A Bonds*”), \$[]* Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007B (the “*Series 2007B Bonds*”), \$[]* Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007C (the “*Series 2007C Bonds*”) and \$[]* Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007D (the “*Series 2007D Bonds*,” and together with the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds, the “*Bonds*”). The Bonds are being issued pursuant to Article 4 of Chapter 5, Division 7, Title 1 of the California Government Code (commencing with Section 6584) (the “*Bond Law*”), a resolution of the Issuer authorizing the issuance of the Bonds (the “*Issuer Resolution*”) and a Trust Indenture, to be dated as of September 1, 2007 (the “*Indenture*”), by and between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the “*Trustee*”). All capitalized terms used in this Official Statement, unless otherwise defined herein, have the same meanings assigned to such terms in the Indenture, the Gas Prepay Agreement (as defined herein) and the Supply Agreement (as defined herein). See “APPENDIX D—CERTAIN DEFINITIONS” and “APPENDIX E—THE SERIES 2007D BONDS AND THE CPI RATE—Definitions” for definitions of certain terms used in this Official Statement.

Purpose of the Bonds

The Bonds are being issued to (a) make a lump sum prepayment (the “*Prepayment*”) to Merrill Lynch Commodities, Inc. (the “*Seller*” or the “*Gas Supplier*” or “*MLCF*”) to acquire a supply of natural gas (the “*Gas Supply*”) for delivery over a period of approximately 30 years to the City of Long Beach, California (the “*City*” or the “*Municipality*”), (b) fund a portion of the interest due on the Bonds through the first interest payment dates on the Bonds and/or the regularly scheduled payments due under the Interest Rate Swaps (as defined herein), and (c) to pay the costs of issuance of the Bonds.

Special Obligations of the Issuer

The Bonds will be special obligation of the Issuer and the principal and Redemption Price of, and interest on, the Bonds are payable solely from the Revenues and the other funds pledged therefor under the Indenture and will not constitute a charge against the general credit of the Issuer. The Bonds will not be secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its

* Preliminary; subject to change.

income or receipts except the Revenues and the other funds pledged pursuant to the Indenture which are subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the Issuer, the City, the State of California (the "*State*") or any other public agency is pledged to the payment of the principal or Redemption Price of or interest on the Bonds. The issuance of the Bonds will not directly, indirectly or contingently obligate the Issuer or the City to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of or interest on the Bonds does not constitute a debt, liability or obligation of the Issuer, the City, the State or any public agency other than the special obligation of the Issuer as provided in the Indenture. The primary and expected source of Revenues pledged under the Indenture are the payments to be received by the Issuer from the City under the Supply Agreement. The payment obligations of the City under the Supply Agreement are limited obligations payable solely from the City's Gas Enterprise Fund (as defined herein) on a subordinate basis to the First Lien Obligations, Second Line Obligations and Subordinate Obligations (as defined herein). In no event will the City be obligated to exercise the power of taxation in order to make such payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Gas Acquisition

The Gas Supply is being purchased by the Issuer from the Seller pursuant to a Prepaid Natural Gas Purchase and Sale Agreement, dated as of September __, 2007 (the "*Prepaid Gas Agreement*"), by and between the Seller and the Issuer. The Gas Supply being purchased pursuant to the Prepaid Gas Agreement will be sold by the Issuer to the City pursuant to a Natural Gas Supply Agreement, dated as of September __, 2007 (the "*Supply Agreement*"), by and between the Issuer and the City. See "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement" and "—The Supply Agreement."

The Issuer is entering into the Prepaid Gas Agreement and the City and the Issuer are entering into the Supply Agreement in order to secure for the City a fixed quantity of natural gas. The City in turn will sell such gas to its natural gas commercial and residential customers. The City will pay the Issuer the Contract Price for all gas delivered or deemed delivered under the Supply Agreement. Failure by the City to pay for gas delivered within 4 Business Days of when such payment is due will result in an immediate termination of the Supply Agreement and an obligation of the Seller to remarket the Gas Supply pursuant to the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Supply Agreement."

The price received by the Issuer for gas sold to the City will be hedged by two separate commodity price swap agreements (collectively, the "*Issuer Commodity Swap*") between the Issuer and BNP Paribas, [acting through its New York Branch] (the "*Commodity Swap Counterparty*" or "*BNPP*"), under terms that are expected to enable the Issuer to receive a revenue stream with respect to the sale of such gas that is fixed for the life of the Prepaid Gas Agreement. "THE GAS SUPPLY ACQUISITION—The Commodity Swaps—The Issuer Commodity Swap."

In order to hedge its exposure under the Prepaid Gas Agreement, the Seller will enter into two separate commodity price swap agreements (collectively, the "*Seller Commodity Swap*") with the Commodity Swap Counterparty under which the Seller will pay a fixed gas price to the Commodity Swap Counterparty in return for the Commodity Swap Counterparty's payment to the Seller of variable gas prices. Nothing in the Seller Commodity Swap relieves the Seller of its obligation to perform under the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Commodity Swaps—The Seller Commodity Swap."

The obligations of the City under the Supply Agreement are generally limited to the payment of the Contract Price for gas delivered or deemed delivered to the Delivery Point. The City is obligated to make payments to the Issuer under the Supply Agreement if and only if gas is actually delivered (or

deemed delivered) to the Delivery Point. The City's payment obligations under the Supply Agreement will be treated as operating expenses payable from the revenues of the City's Gas Enterprise Fund (the "**Gas Enterprise Fund**"). The City's obligation to make payments under the Supply Agreement will be payable solely from amounts on deposit in the Gas Enterprise Fund. No other funds or accounts of the City (including, but not limited to, the City General Fund) will be liable for payments owed under the Supply Agreement. ***The payment obligations of the City under the Supply Agreement are subordinate to the payment of debt service and other amounts due on the First Lien Obligations, Second Lien Obligations, and the Subordinate Obligations secured by the Gas Enterprise Fund.*** The City currently has no First Lien Obligations outstanding and \$5,595,000 aggregate principal amount of Second Lien Obligations outstanding (the City of Long Beach 2005 Gas Utility Refunding Revenue Bonds (the "**2005 Gas Utility Bonds**"). Pursuant to the Master Subordinate Trust Indenture, dated as of July 1, 2005, as supplemented by the First Supplemental Subordinate Trust Indenture, dated as of July 1, 2005 (collectively, the "**Subordinate Indenture**"), both by and between the City and Deutsche Bank National Trust Company, as trustee, the City is currently authorized to issue and have outstanding, from time to time, up to \$35,000,000 in aggregate principal amount of its Subordinate Gas Utility Revenue Commercial Paper Notes (the "**Subordinate Commercial Paper Notes**"). As of August 15, 2007, there was \$15,255,000 aggregate principal amount of Subordinate Commercial Paper Notes outstanding. In connection with the Subordinate Commercial Paper Notes, the City entered into a Reimbursement Agreement, dated as of July 1, 2005 (the "**CP Reimbursement Agreement**"), with JPMorgan Chase Bank, N.A. ("**JPMorgan**"), pursuant to which JPMorgan issued an irrevocable letter of credit to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. The principal and interest on the Subordinate Commercial Paper Notes and the repayment obligations of the City under Reimbursement Agreement are Subordinate Obligations. See "APPENDIX A—THE LONG BEACH GAS AND OIL DEPARTMENT AND THE GAS ENTERPRISE—Financial Information—Outstanding Indebtedness."

A portion of the City's payments for gas delivered or deemed delivered pursuant to the Supply Agreement (and only such payments) will be guaranteed by XL Capital Assurance Inc. (the "**Surety Provider**" or "**XLCA**") pursuant to a surety bond to be issued by the Surety Provider in favor of the Issuer (the "**Customer Surety Bond**"). The Customer Surety Bond will cover non-payment by the City for gas delivered or deemed delivered under the Supply Agreement. In general, the Customer Surety Bond will guarantee the City's obligations to pay for three consecutive months of gas with maximum monthly volumes (2,434,169 MMBtus*) up to a Contract Price of \$40.00/MMBtu. The Customer Surety Bond will be issued in the amount of \$97,366,760* (the "**Surety Bond Limit**") Any non-payments by the City for gas delivered or deemed delivered greater than the Surety Bond Limit and other payments that may be payable by the City to the Issuer under the Supply Agreement will not be covered by the Customer Surety Bond. The Customer Surety Bond does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER SURETY BOND AND THE SURETY PROVIDER."

Upon the occurrence of an "automatic Triggering Event" under the Prepaid Gas Agreement (see "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement—Triggering Events; Termination of the Prepaid Gas Agreement—Automatic Triggering Event") the Prepaid Gas Agreement will be terminated. Upon the occurrence of certain other Triggering Events under the Prepaid Gas Agreement (see "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement—Triggering Events; Termination of the Prepaid Gas Agreement—Triggering Event at the Option of the Issuer") or (a) the imposition of certain taxes; (b) certain changes in applicable law; and, in either case of clause (a) or (b), the parties have been unable to equitably adjust their rights and obligations in light of such circumstances as provided in the Prepaid Gas Agreement, the Prepaid Gas Agreement may be terminated. Upon any such termination, amounts due by a party to the other party, including the Termination Amount to be paid

* Preliminary; subject to change.

by the Seller, is to be invoiced and paid in accordance with the Prepaid Gas Agreement. See “THE GAS SUPPLY ACQUISITION.” The Seller’s payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (the “*Guarantor*”) pursuant to a guarantee (the “*Seller Guarantee*”) in favor of the Issuer. The Seller Guarantee guarantees only the payments required to be made by the Seller under the Prepaid Gas Agreement and does not constitute a guarantee of the Issuer’s obligations with respect to the Bonds. See “THE GAS SUPPLY ACQUISITION” and “THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE, THE INTEREST RATE SWAP GUARANTEE AND THE FUNDING GUARANTEE.”

In connection with the issuance of the Series 2007B Bonds, the Issuer will enter into interest rate swap agreements (collectively, the “*Series 2007B Interest Rate Swap*”) with Merrill Lynch Capital Services, Inc. (the “*Series 2007B Interest Rate Swap Counterparty*”) in order to hedge against changes in the Issuer’s interest expense associated with the Series 2007B Bonds and to achieve net synthetic fixed rate obligations. The Guarantor will guaranty the payment obligations of the Series 2007B Interest Rate Swap Counterparty under the Series 2007B Interest Rate Swap pursuant to a guarantee (the “*Series 2007B Interest Rate Swap Guarantee*”). The Series 2007B Interest Rate Swap Guarantee guarantees only the payment obligations of the Series 2007B Interest Rate Swap Counterparty under the Series 2007B Interest Rate Swap and does not constitute a guarantee of the Issuer’s obligations with respect to the Bonds. See “THE GAS ACQUISITION—The Interest Rate Swaps.”

In connection with the issuance of the Series 2007C Bonds, the Issuer will enter into interest rate swap agreements (collectively, the “*Series 2007C Interest Rate Swap*”) with Merrill Lynch Capital Services, Inc. (the “*Series 2007C Interest Rate Swap Counterparty*”) in order to hedge against changes in the Issuer’s interest expense associated with the Series 2007C Bonds and to achieve net synthetic fixed rate obligations. The Guarantor will guaranty the payment obligations of the Series 2007C Interest Rate Swap Counterparty under the Series 2007C Interest Rate Swap pursuant to a guarantee (the “*Series 2007C Interest Rate Swap Guarantee*”). The Series 2007C Interest Rate Swap Guarantee guarantees only the payment obligations of the Series 2007C Interest Rate Swap Counterparty under the Series 2007C Interest Rate Swap and does not constitute a guarantee of the Issuer’s obligations with respect to the Bonds. See “THE GAS ACQUISITION—The Interest Rate Swaps.”

In connection with the issuance of the Series 2007D Bonds, the Issuer will enter into interest rate swap agreements (collectively, the “*Series 2007D Interest Rate Swap*,” and together with the Series 2007B Interest Rate Swap and the Series 2007C Interest Rate Swap, the “*Interest Rate Swaps*”) with Merrill Lynch Capital Services, Inc. (the “*Series 2007D Interest Rate Swap Counterparty*,” and together with the Series 2007B Interest Rate Swap Counterparty and the Series 2007C Interest Rate Swap Counterparty, the “*Interest Rate Swap Counterparty*”) in order to hedge against changes in the Issuer’s interest expense associated with the Series 2007D Bonds and to achieve net synthetic fixed rate obligations. The Guarantor will guaranty the payment obligations of the Series 2007D Interest Rate Swap Counterparty under the Series 2007D Interest Rate Swap pursuant to a guarantee (the “*Series 2007D Interest Rate Swap Guarantee*”). The Series 2007D Interest Rate Swap Guarantee guarantees only the payment obligations of the Series 2007D Interest Rate Swap Counterparty under the Series 2007D Interest Rate Swap and does not constitute a guarantee of the Issuer’s obligations with respect to the Bonds. See “THE GAS ACQUISITION—The Interest Rate Swaps.”

The Seller and the Issuer will enter into a Funding and Assignment Agreement, to be dated as of September __, 2007 (the “*Funding Agreement*”). The Funding Agreement will provide that the Seller will advance funds to the Issuer: (a) in the event that upon the early termination of the Prepaid Gas Agreement the amount in the Termination Fund, after the deposit in the Termination Fund of the Termination Amount due by the Seller under the Prepaid Gas Agreement and the transfer to the Termination Fund of amounts in the Revenue Fund, the Debt Service Fund and the Commodity Swap

Payment Fund, is less than the Redemption Price necessary to redeem the Bonds, including accrued interest to the Early Redemption Date [and the amount necessary to pay a termination payment, if any, to the Qualified Provider, unless such deficiency was caused by a payment default by the Commodity Swap Counterparty] (a "**Covered Termination Deficiency**"); (b) in the event that there is a deficiency in the Debt Service Fund on any date because the Issuer has failed to receive regularly scheduled swap payments under the Issuer Commodity Swap due to the occurrence of (i) a termination event under the Issuer Commodity Swap where the Commodity Swap Counterparty is the affected party; or (ii) an Issuer default under the Issuer Commodity Swap, and such failure occurs on or after the applicable termination event or event of default but prior to the date on which the Issuer Commodity Swap is either terminated in accordance with its terms or, if the Issuer Commodity Swap is assigned in accordance with its terms, the date on which regularly scheduled swap payments by the successor counterparty commence (a "**Covered Swap Deficiency**"). If there is a shortfall in the Debt Service Fund, the Commodity Swap Payment Fund or the Termination Fund for any other reason (a "**Covered General Deficiency**"), the Seller has the right, within its sole determination and discretion, to make an advance to cover such Fund deficiency. The Seller's obligations under the Funding Agreement will be guaranteed under a funding guarantee (the "**Funding Guarantee**") provided by the Guarantor. The Funding Guarantee guarantees only the payments required to be made by the Seller under the Funding Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement" and "THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE, THE INTEREST RATE SWAP GUARANTEE AND THE FUNDING GUARANTEE."

[Description of Investment Agreement to come]

[The City has previously entered into a Master Gas Purchase/Sale and Services Agreement, dated as of March 12, 2006 (the "**Coral Gas Purchase Agreement**") with Coral Energy Resources, L.P. ("**Coral Energy**") to provide the City with a portion of its natural gas requirements. The Coral Gas Purchase Agreement has an effective date of April 1, 2006 and a termination date of April 1, 2009. Pursuant to the Coral Gas Purchase Agreement, Coral Energy has agreed to provide the City with the following services, (a) forecasting of the daily natural gas supply requirements of the City; (b) the procurement, scheduling and delivery of natural gas for and to the City; and (c) management of certain agreements associated with the Gas Enterprise (as defined herein). In addition to paying for the natural gas delivered to the City, the City has agreed to pay Coral Energy a fee of \$84,000 per month for services provided under the Coral Gas Purchase Agreement. [Description of new arrangement with Coral to come.]]

Limitation on Issuance of Additional Bonds

Pursuant to the Indenture, the Issuer will covenant that it will not issue any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incurring obligations other than the Issuer Commodity Swap and the Interest Rate Swaps, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate, other than the lien and charge created by the Indenture to secure the Bonds, the lien and charge securing such refunding obligations and any lien to secure the Issuer Commodity Swap and the Interest Rate Swaps.

The Issuer, the City and the Long Beach Gas and Oil Department

The Issuer is a joint exercise of powers agency and public entity of the State that has been organized for the purpose, inter alia, of financing development and acquisitions undertaken by the City.

The City is a municipal corporation and chartered city of the State and encompasses approximately 52 square miles of coastal area located on the southern edge of the County of Los Angeles (the "*County*"), approximately 25 miles southwest of the City of Los Angeles. With a current population of approximately 490,000, it is the second largest city in the County and the fifth largest city in the State. The City operates under the council-manager form of government with a Mayor and a nine-member City Council. The City Manager is appointed by and serves at the discretion of the City Council.

The Gas Enterprise is operated by the Long Beach Gas and Oil Department of the City (the "*LBGO*") which is under the direction of a Director. The Gas Enterprise, the fifth largest municipal gas utility in the United States, serves approximately 145,000 customers. The Gas Enterprise's service territory includes the cities of Long Beach and Signal Hill and sections of surrounding communities including Lakewood, Bellflower, Compton, Seal Beach, Paramount and Los Alamitos. The Gas Enterprise customer load profile is 51% residential and 49% commercial/industrial.

Book-Entry Only System

Ownership interests in the Bonds may be purchased in book-entry form only through The Depository Trust Company, New York, New York ("*DTC*"). The Bonds will be issuable in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as the depository of the Bonds and all payments due on the Bonds will be made to DTC or its nominee. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, references herein to the Owner or registered owner will mean Cede & Co. and will not mean the Beneficial Owners (as defined herein) of the Bonds. See "TERMS OF THE BONDS" and "APPENDIX L—BOOK-ENTRY-ONLY SYSTEM."

Continuing Disclosure Agreement

The Issuer and the City will covenant for the benefit of the holders of the Bonds to provide certain financial information and operating data concerning the Gas Enterprise and the Gas Enterprise Fund to each of the Nationally Recognized Municipal Securities Information Repositories annually and to provide notice to the Municipal Securities Rulemaking Board or to each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission of certain enumerated events, pursuant to the requirements of Section (b)(5)(i) of Rule 15c2-12 of the Securities Exchange Commission. See "CONTINUING DISCLOSURE" and "APPENDIX G—FORM OF CONTINUING DISCLOSURE AGREEMENT" for the form of the Continuing Disclosure Agreement.

Forward-Looking Statements

This Official Statement, including the appendices hereto, contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "anticipate," "forecast," "project," "intend," "propose," "plan," "expect" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See "CERTAIN BONDHOLDER RISKS—Forward-Looking Statements."

Miscellaneous

Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer, the City, the Seller, the Guarantor, the Commodity Swap Counterparty and the Surety Provider. No dealer, broker, salesperson or other person has been authorized by the Issuer, the City or the Underwriter to give any information or to make any representations other than those contained herein in connection with the offer and sale of the Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer, the City or the Underwriter.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement contains brief descriptions of, among other matters, the Issuer, the City, the Gas Enterprise, the Seller, the Guarantor, the Customer Surety Bond, the Surety Provider, the Funding Agreement, the Bonds, the Indenture, the Supply Agreement, the Prepaid Gas Agreement, the Issuer Commodity Swap, the Seller Commodity Swap, the Commodity Swap Counterparty, the Interest Rate Swaps, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries contained herein and in the Appendices hereto of various statutes, of the Indenture, and other documents are intended as summaries only and are qualified in their entirety by reference to such provisions, statutes, and documents; additionally, references herein to the Bonds are qualified in their entirety to the form thereof included in the Indenture. Copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available upon request, and upon payment to the Issuer of a charge for copying, mailing and handling, from Long Beach Bond Finance Authority, 333 West Ocean Boulevard, Long Beach, California 90802, Attention: [____], Telephone: (562) 570-[____]. During the period of the offering of the Bonds, copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available, upon request and upon payment of a charge for copying, mailing and handling to Mr. Mark Widener, Merrill Lynch & Co., Inc., Global Markets and Investment Banking, Suite 200, 3455 Peachtree Road, The Pinnacle, Atlanta, Georgia 30326, Telephone: (404) 264-3860.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are set forth in the following table.

Sources:	
Par Amount of the Bonds	\$
Original Issue Premium/(Discount)	_____
Total	\$ <u> </u>
Uses:	
Prepayment of Gas Supply	\$
Capitalized Interest ¹	
Costs of Issuance ²	_____
Total	\$ <u> </u>

¹ Represents a portion of the interest payable on the Bonds through the respective first interest payment dates and/or regularly scheduled payments due under the Interest Rate Swaps.
² Includes Underwriter’s discount, the premium for the Customer Surety Bond, legal fees and other costs of issuance.

TERMS OF THE BONDS

General

The Bonds will be dated their date of delivery (September []*, 2007), and will mature on the dates and in the principal amounts set forth on the inside front cover hereof. The Bonds will be issued as fully registered bonds in denominations of \$5,000 and integral multiples thereof.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. Ownership interests in the Bonds may be purchased in book-entry form only through DTC. DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, references herein to the Owner or registered owner will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, the principal of, premium, if any, and interest on the Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee of DTC, which is required in turn, to remit such amount to the Direct Participants (as defined herein) for subsequent disbursement by the Direct Participants and the Indirect Participants (as defined herein) to the Beneficial Owners. See "APPENDIX L—BOOK-ENTRY-ONLY SYSTEM."

Interest Rates and Payments

Series 2007A Bonds. Interest on the Series 2007A Bonds will be payable on each May 15 and November 15, commencing on May 15, 2008 (each a "**Series 2007A Interest Payment Date**"), at the rates set forth on the inside front cover page hereof. Interest on the Series 2007A Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Series 2007B Bonds. The Series 2007B Bonds will bear interest from their date of delivery through and including November 14, 2007 at the applicable Initial Interest Rates set forth on the inside front cover page hereof. On and after November 15, 2007, the Series 2007B Bonds will bear interest at a per annum rate equal to the sum of (a) 67% of the Three-Month LIBOR Rate (as defined below) for each Series 2007B Interest Period (as defined below) plus (b) the applicable per annum spread specified in the following table, except the Series 2007B Bonds may not bear interest during any Series 2007B Interest Period greater than a maximum rate of 15%:

Series 2007B Bonds due November 15	Spread above 67% of Three-Month LIBOR Rate
	%

Interest on the Series 2007B Bonds will be payable on each February 15, May, 15, August 15 and November 15, commencing on November 15, 2007 (each a "**Series 2007B Interest Payment Date**"). Interest on the Series 2007B Bonds will be computed on the basis of a 365- or 366- day year, as applicable, for the actual number of days elapsed and will be rounded to the fifth decimal place (e.g. x.xxxxx%).

* Preliminary; subject to change.

The Trustee will obtain the Three-Month LIBOR Rate, calculate the interest rates on the Series 2007B Bonds for each Series 2007B Interest Period on the LIBOR Rate Determination Date (as defined below) for such Series 2007B Interest Period, and promptly provide written notice of the Three-Month LIBOR Rate and such interest rates to the Issuer and the Owners of the Series 2007B Bonds.

“*LIBOR Rate Determination Date*” means the date that is two London Banking Days preceding the first day of each Series 2007B Interest Period.

“*London Banking Day*” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the City of London, United Kingdom.

“*Series 2007B Interest Period*” means each period commencing on and including a Series 2007B Interest Payment Date to but not including the next succeeding Series 2007B Interest Payment Date.

“*Three Month LIBOR Rate*” for any Series 2007B Interest Period means the rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers’ Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the LIBOR Rate Determination Date, except that, if such rate does not appear on such page on the LIBOR Rate Determination Date, the Three Month LIBOR Rate means a rate determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on the LIBOR Rate Determination Date, to prime banks in the London interbank market by four major banks in the London interbank market (herein referred to as the “*Reference Banks*”) selected by the Trustee. The Trustee will request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the Three Month LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the Three Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (or, if three are not available, two, or, if two are not available, one) major banks in New York City, selected by the Trustee, at approximately 11:00 a.m., New York City time, on the LIBOR Rate Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity. If none of the banks in New York City selected by the Trustee are then quoting rates for such loans, then the Three Month LIBOR Rate for the ensuing Series 2007B Interest Period will mean the Three Month LIBOR Rate then in effect in the immediately preceding Series 2007B Interest Period.

Series 2007C Bonds. For the Series 2007C Initial Interest Period (as defined below) and for each Series 2007C Interest Period (as defined below) thereafter, the Series 2007C Bonds will bear interest at a per annum rate equal to the sum of (a) the SIFMA Municipal Swap Index (as defined below) for such Series 2007C Interest Period, plus (b) the applicable per annum spread specified in the following table, except the Series 2007C Bonds may not bear interest greater than the a maximum rate of 15%:

Series 2007C Bonds due November 15	Spread above SIFMA Municipal Swap Index
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%

Interest on the Series 2007C Bonds will be payable on each February 15, May, 15, August 15 and November 15, commencing on November 15, 2007 (each a “*Series 2007C Interest Payment Date*”). Interest on the Series 2007C Bonds will be computed on the basis of a 365- or 366- day year, as applicable, for the actual number of days elapsed and will be rounded to the fifth decimal place (e.g. x.xxxxx%).

The Trustee will obtain the SIFMA Municipal Swap Index, calculate the interest rates on the Series 2007C Bonds for each Series 2007C Interest Period, and promptly provide written notice of the SIFMA Municipal Swap Index and such interest rates to the Issuer and the Owners of the Series 2007C Bonds.

“*Series 2007C Interest Period*” means the Series 2007C Initial Interest Period and thereafter each period commencing on and including a Thursday of each week through and including the next succeeding Wednesday or such other period as may be described in the SIFMA Municipal Swap Index.

“*Series 2007C Initial Interest Period*” means the period commencing on the date of delivery of the Series 2007C Bonds to but not including [_____], 2007.

“*SIFMA Municipal Swap Index*” for any day means the level of the most recently effective index rate which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day (as defined below), the next succeeding U.S. Government Securities Business Day. If such index is no longer published, the “SIFMA Municipal Swap Index” for any day will mean the level of the “S&P Weekly High Grade Index” (formerly the J.J. Kenny Index) maintained by Standard & Poor’s Securities Evaluations Inc. for a seven-day maturity as published on the day which is one U.S. Government Securities Business Day immediately preceding the effective date of such index. If neither such index is available, the “SIFMA Municipal Swap Index” for a day will be the prevailing rate determined most recently on or before the effective date of such index by the Trustee, as calculation agent, in consultation with the City, for tax-exempt state and local government bonds meeting the then-current Securities Industry and Financial Markets Association criteria for purposes of determining the floating rate under the Series 2007C Interest Rate Swap. The effective date for each such index is every Thursday (or any other day specified by the Securities Industry and Financial Markets Association, in the case of the first such index), or if any Thursday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.

“*U.S. Government Securities Business Day*” means any day except for a Saturday, a Sunday, or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading U.S. government securities.

Series 2007D Bonds. The Series 2007D Bonds will bear interest from their date of delivery through and including October 14, 2007 at the applicable Initial Interest Rates set forth on the inside front cover page hereof. On and after October 15, 2007, the Series 2007D Bonds will bear interest at the CPI Rate as described in “APPENDIX E—THE SERIES 2007D BONDS AND THE CPI RATE.” The Series 2007D Bonds may not bear interest greater than a maximum rate of 15%. For a description of the CPI Rate and the calculation of interest on the Series 2007D Bonds, see “APPENDIX E—THE SERIES 2007D BONDS AND THE CPI RATE.” Interest on the Series 2007D Bonds will be payable on 15th day of each month, commencing on October 15, 2007 (each a “*Series 2007D Interest Payment Date*”).

Redemption

Optional Redemption.

Series 2007A Bonds. The Series 2007A Bonds will be subject to redemption prior to maturity at the option of the Issuer, at the direction of the City, in whole or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) from any lawful money of the Issuer on any date, at a Redemption Price equal to the greater of (a) the Amortized Value (as defined below) thereof, plus accrued and unpaid interest to the date of redemption; or (b) the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Series 2007A Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Series 2007A Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (as defined below) for such Series 2007A Bonds minus 0.25%*.

“Amortized Value” means, with respect to any Series 2007A Bond to be redeemed, the principal amount of such Series 2007A Bond multiplied by the original purchase price of such Series 2007A Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of delivery of the Series 2007A Bonds), with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Series 2007A Bond and a yield equal to such Series 2007A Bond’s original reoffering yield, which, in the case of certain dates, produces the amounts for all of the Series 2007A Bonds set forth in “APPENDIX J—SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007A BONDS.”

The *“Applicable Tax-Exempt Municipal Bond Rate”* will be the “Comparable AAA General Obligations” yield curve rate for the stated maturity date as published by Municipal Market Data five (5) Business Days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the “Comparable AAA General Obligations” yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the “Applicable Tax-Exempt Municipal Bond Rate” will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com. In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the “Comparable AAA General Obligations” yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.theconsensus.com. In the further event that Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by a major market maker in municipal securities, as the quotation agent, based upon the rate per annum equal to the annual yield to maturity, calculated using semi-annual compounding, of those tax-exempt general obligation bonds rated in the highest Rating Category by Moody’s and S&P with a maturity date equal to the stated maturity date of such Series 2007A Bonds. The quotation agent’s determination of the Applicable Tax-Exempt Municipal Bond Rate will be final and binding in the absence of manifest error.

Series 2007B Bonds. The Series 2007B Bonds will be subject to redemption prior to maturity at the option of the Issuer, at the direction of the City, in whole or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) from any lawful money of the Issuer on any date, at a Redemption Price equal to the sum of the principal amount thereof together with

* Preliminary; subject to change.

the Series 2007B Spread Premium (as defined below), plus accrued and unpaid interest to the date of redemption.

“*Series 2007B Spread Premium*” means, as of the redemption date for any Series 2007B Bonds, the present value of the product of (a) the excess, if any, of (i) the per annum spread above the percentage of the Three-Month LIBOR Rate at which the Series 2007B Bonds to be redeemed bear interest over (ii) 0.25%* per annum, as summarized in the following table, and (b) the principal amount of the Series 2007B Bonds to be redeemed on such redemption date, determined as if such product were payable quarterly from such redemption date to the maturity of such Series 2007B Bonds, determined as if any such Series 2007B Bonds were redeemed on the first Sinking Fund Payment date as of which 50% of the Series 2007B Bonds of the same maturity then Outstanding will have been redeemed (the “*Series 2007B Median Maturity*”) but no such Series 2007B Bonds were otherwise redeemed prior to maturity, discounting to the redemption date quarterly at a discount rate equal to (a) 67% of the USD-ISDA-Swap Rate (as defined below) (for the designated maturity which is closest to the Series 2007B Median Maturity of the Series 2007B Bonds to be redeemed) appearing on Reuters at 11:00 a.m. New York City time, two (2) U.S. Government Securities Business Days prior to the first mailing of notice of such redemption, plus (b) 0.25%* per annum.

Series 2007B Bonds due November 15	Interest Rate Spread	Net Spread for Calculating Redemption Premium
	%	%

“*USD-ISDA-Swap Rate*” means, for a designated maturity and date, the rate for U.S. dollar swaps of such maturity, expressed as a percentage, which appears on the Reuters Money 3000 Service on the page designated ISDAFIX1 (or such other page as may replace that page on such service for the purpose of displaying comparable rates) at 11 a.m., New York City time, on the day which is two (2) U.S. Government Securities Business Days prior to such date. If such rate does not appear on such page on such day, then USD-ISDA-Swap Rate for such maturity and date means the percentage determined on the basis of mid-market semiannual swap rate quotations provided by five leading swap dealers in the New York City interbank market (as selected by the Trustee and subject to the approval of the City, which approval may not be unreasonably withheld) at approximately such time on such day as the mean of the bid and offered rates for the semiannual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with an effective date of the relevant early termination date and a termination date equal to such maturity, in an amount that is representative for a single transaction in such market at such time, with an acknowledged dealer of good credit in such market, where the floating rate, calculated on the basis of a 360-day year for actual days elapsed, is equal to the London Interbank Offered Rate for loans with a three-month duration.

The Series 2007B Spread Premium will only be payable upon optional redemption of the Series 2007B Bonds. No Series 2007B Spread Premium will be payable upon Mandatory Redemption of the Series 2007B Bonds or any redemption of the Series 2007A Bonds or the Series 2007C Bonds.

The foregoing redemption provisions are subject to the limitation that no Series 2007B Bonds may be optionally redeemed in whole or in part unless the Issuer simultaneously terminates all or a

* Preliminary; subject to change.

portion of the notional amount of the Series 2007B Interest Rate Swap that is equal to the amount of Series 2007B Bonds to be redeemed, in accordance with the provisions of the Series 2007B Interest Rate Swap, including payment of any amount owed by the Issuer to the Series 2007B Interest Rate Swap Counterparty on the termination date.

Series 2007C Bonds. The Series 2007C Bonds will be subject to redemption prior to maturity at the option of the Issuer, at the direction of the City, in whole or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) from any lawful money of the Issuer on any date, at a Redemption Price equal to the sum of the principal amount thereof together with the Series 2007C Spread Premium (as defined below), plus accrued and unpaid interest to the date of redemption.

“Series 2007C Spread Premium” means, as of the redemption date for Series 2007C Bonds, the present value of the product of (a) the excess, if any, of (i) the per annum spread above the percentage of the SIFMA Municipal Swap Index at which the Series 2007C Bonds to be redeemed bear interest over (ii) 0.10%* per annum, as summarized in the following table, and (b) the principal amount of the Series 2007C Bonds to be redeemed on such redemption date, determined as if such product were payable quarterly from such redemption date to the maturity of such Series 2007C Bonds determined as if any such Series 2007C Bonds were redeemed on the first Sinking Fund Payment date as of which 50% of the Series 2007C Bonds of the same maturity then Outstanding will have been redeemed (the “Series 2007C Median Maturity”), but no such Series 2007C Bonds were otherwise redeemed prior to maturity, discounting to the redemption date quarterly at a discount rate equal to (A) the product of (1) the USD-ISDA-Swap Rate for such Redemption Date (for the designated maturity which is closest to the Series 2007C Median Maturity of the Series 2007C Bonds to be redeemed) and (2) the Applicable Ratio (as defined below) for such Series 2007C Bond and redemption date, plus (B) 0.10%* per annum.

Series 2007C Bonds due November 15	Interest Rate Spread	Net Spread for Calculating Redemption Premium
	%	%

“Applicable Ratio” means, for any redemption date and for any Series 2007C Bond, the mid of the bid and ask for “Percentage of Libor vs. SIFMA Muni Index,” for the designated maturity closest to the Series 2007C Median Maturity for such Series 2007C Bonds to be redeemed, which appears on the Bloomberg Screen PREBON13 Page as of close of business in New York City on the second U.S. Government Securities Business Day prior to such redemption date of the Series 2007C Bonds. If such bid and ask for “Percentage of Libor vs. SIFMA Muni Index” does not appear on the Bloomberg Screen PREBON13 Page on such day, the Applicable Ratio to be determined on such day for such Series 2007C Bonds to be redeemed will be the ratio, expressed as a percentage, of (a) a rate determined on such day on the same basis as the USD-ISDA-Swap Rate (with a designated maturity which is closest to the Series 2007C Median Maturity for such Series 2007C Bonds to be redeemed) for such Series 2007C Bonds to be redeemed determined by swap dealer quotations, except substituting the SIFMA Municipal Swap Index for Three-Month LIBOR divided by (b) the USD-ISDA-Swap Rate (with a designated maturity which is closest to the Series 2007C Median Maturity for such Series 2007C Bonds to be redeemed) determined on such day. An independent calculation agent selected by the City will request the principal New York City office of each of the dealers to provide a quotation of the percentage. If at least three quotations are

* Preliminary; subject to change.

provided, the Applicable Ratio will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

The Series 2007C Spread Premium will only be payable upon optional redemption of the Series 2007C Bonds. No Series 2007C Spread Premium will be payable upon Mandatory Redemption of the Series 2007C Bonds or any redemption of the Series 2007A Bonds or the Series 2007B Bonds.

The foregoing redemption provisions are subject to the limitation that no Series 2007C Bonds may be optionally redeemed in whole or in part unless the Issuer simultaneously terminates all or a portion of the notional amount of the Series 2007C Interest Rate Swap that is equal to the amount of Series 2007C Bonds to be redeemed, in accordance with the provisions of the Series 2007C Interest Rate Swap, including payment of any amount owed by the Issuer to the Series 2007C Interest Rate Swap Counterparty on the termination date.

Series 2007D Bonds. The Series 2007D Bonds will be subject to redemption prior to maturity at the option of the Issuer, at the direction of the City, in whole or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) from any lawful money of the Issuer on any date, at a Redemption Price equal to the sum of the principal amount thereof together with the [] (as defined below), plus accrued and unpaid interest to the date of redemption.

The foregoing redemption provisions are subject to the limitation that no Series 2007D Bonds may be optionally redeemed in whole or in part unless the Issuer simultaneously terminates all or a portion of the notional amount of the Series 2007D Interest Rate Swap that is equal to the amount of Series 2007D Bonds to be redeemed, in accordance with the provisions of the Series 2007D Interest Rate Swap, including payment of any amount owed by the Issuer to the Series 2007D Interest Rate Swap Counterparty on the termination date.

Mandatory Redemption.

In connection with a “Mandatory Redemption Upon Early Termination” and “Mandatory Redemption for Remediation” described below, the Prepaid Gas Agreement will be terminated or reduced, and the Seller will be required to pay to the Trustee for the account of the Issuer a termination payment in an amount which, together with any actual collections of proceeds of sale of gas deliveries then made by the Seller, has been calculated to be sufficient (together with deposits to the Debt Service Fund) to pay the redemption price of the Bonds subject to such redemption, assuming the prior redemptions of the Bonds pursuant to Mandatory Sinking Fund Redemption as scheduled. See “THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement” herein.

Mandatory Redemption Upon Early Termination. The Bonds will be subject to mandatory redemption prior to maturity in whole, and not in part, on the Early Redemption Date (the date which is the last day of the month which follows the month in which the Early Termination Date occurs) at a Redemption Price equal to (a) with respect to the Series 2007A Bonds, the Amortized Value thereof as of the Early Redemption Date, and (b) with respect to the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds, 100% of the principal amount thereof as of the Early Termination Date, plus, in each case, unpaid accrued interest to the Early Redemption Date. The Issuer will provide the Trustee with Written Notice of the Early Termination Payment Date and immediately upon receipt of such notice, the Trustee will establish the Early Redemption Date and will take all action necessary to redeem the Outstanding Bonds on the Early Redemption Date with the moneys in the Termination Fund. See “THE

GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement—Triggering Events; Termination of the Prepaid Gas Agreement” and “—Payments on Early Termination; Redemption of Bonds.”

Mandatory Redemption for Remediation. The Bonds will be subject to mandatory redemption prior to maturity in whole or in part, in reverse order of maturity or pro rata based on the principal amount of the Series 2007A Bonds, the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds (or in such other manner as determined by the Issuer by notice to the Trustee accompanied by a Favorable Opinion of Bond Counsel), on any Series 2007A Interest Payment Date, Series 2007B Interest Payment Date, Series 2007C Interest Payment Date or Series 2007D Interest Payment Date, as applicable, at a Redemption Price equal to (a) with respect to the Series 2007A Bonds, the Amortized Value thereof as of the Early Redemption Date, and (b) with respect to the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds, 100% of the principal amount thereof as of the Early Redemption Date, plus, in each case, unpaid accrued interest to the redemption date, if required pursuant to the Tax Agreement to maintain the Tax-Exempt Status of the Bonds. In general, such redemption will be required as a result of the failure to apply the Gas Supply for a Qualifying Use. See “THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement—Remediation.”

Mandatory Sinking Fund Redemption. The Series 2007B Bonds maturing on November 15, 20__, are subject to mandatory sinking fund redemption prior to maturity from Sinking Fund Payments, on each November 15 on and after November 15, 20__ at a Redemption Price equal to the principal amount thereof, without premium, together with accrued interest to the redemption date. The following Sinking Fund Payments will be due on November 15 of each of the years set forth in the following table in the respective amounts set forth opposite such years in said table:

Year	Sinking Fund Payments
------	--------------------------

* Final Maturity

The Series 2007C Bonds maturing on November 15, 20__, are subject to mandatory sinking fund redemption prior to maturity from Sinking Fund Payments, on each November 15 on and after November 15, 20__ at a Redemption Price equal to the principal amount thereof, without premium, together with accrued interest to the redemption date. The following Sinking Fund Payments will be due on November 15 of each of the years set forth in the following table in the respective amounts set forth opposite such years in said table:

Year	Sinking Fund Payments
------	--------------------------

* Final Maturity

The Series 2007D Bonds maturing on November 15, 20__, are subject to mandatory sinking fund redemption prior to maturity from Sinking Fund Payments, on each November 15 on and after November

15, 20__ at a Redemption Price equal to the principal amount thereof, without premium, together with accrued interest to the redemption date. The following Sinking Fund Payments will be due on November 15 of each of the years set forth in the following table in the respective amounts set forth opposite such years in said table:

Year	Sinking Fund Payments
------	--------------------------

* Final Maturity

All such Sinking Fund Payments will be deposited in the Debt Service Fund. All money in the Debt Service Fund representing the Sinking Fund Payments for the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds, as applicable, will be used and withdrawn by the Trustee (upon receipt of a Written Request of the Issuer) at any time for the purchase of the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds, as applicable, at public or private sale, as and when and at such prices (including brokerage and other charges) as the Issuer may in its discretion determine, but not to exceed the principal amount of such Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds, as applicable; provided, that all money in the Debt Service Fund representing the Sinking Fund Payments for the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds, as applicable, on November 15 of each year during the period beginning on November 15, 20__, and ending on November 15, 2037, both dates inclusive, will be used and withdrawn by the Trustee on such November 15 for the mandatory redemption or payment of such Series 2007B Bonds, the Series 2007C Bonds or Series 2007D Bonds, as applicable, and the Issuer will call and redeem in accordance with the mandatory sinking fund redemption provisions of the Indenture or pay the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds, as applicable, from the Sinking Fund Payments deposited in the Debt Service Fund pursuant to this paragraph whenever on November 15 of any year, beginning on November 15, 20__, there is money in the Debt Service Fund available for such purpose.

Notice of Redemption. When the Trustee receives notice from the Issuer of the Issuer's election or direction to optionally redeem Bonds, or when mandatory redemption of Bonds by the Trustee is required due to early termination of the Prepaid Gas Agreement, for remediation or for mandatory sinking fund redemption, each as described above, the Trustee will give notice, in the name of the Issuer, of the redemption of such Bonds by first-class mail, postage prepaid, not less than 30 days (15 days in the case of any mandatory redemption under the Indenture) and not more than 45 days (30 days in the case of any mandatory redemption under the Indenture) prior to the redemption date to the Owner of each Bond being redeemed, at its address as it appears on the Bond Register or at such address as such Owner may have filed with the Trustee for that purpose, as of the Regular Record Date. The notice will identify the Bonds to be redeemed and state (a) the redemption date, (b) the Redemption Price or the manner in which it will be calculated, (c) that the Bonds called for redemption must be surrendered to collect the Redemption Price, (d) the address at which the Bonds must be surrendered and (e) that interest on the Bonds called for redemption ceases to accrue on the redemption date. With respect to any notice of optional redemption of Bonds, unless upon the giving of such notice such Bonds will be deemed to have been paid within the meaning of the defeasance provisions of the Indenture, such notice will state that such redemption will be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of money sufficient to pay the Redemption Price of and interest on the Bonds to be redeemed, and that if such money has not been so received said notice will be of no force and effect, and the Issuer will not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and

such money is not so received, the redemption will not be made and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such money was not so received and that such redemption was not made. Any notice given as described above will be effective whether or not such notice is received by any person. Failure to give proper notice as to any Bond will not affect the validity of the proceedings for the redemption of any other Bonds as to which proper notice was given as provided herein.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption. See "APPENDIX L—BOOK-ENTRY-ONLY SYSTEM."

Bonds Redeemed in Part. Upon surrender of a Bond redeemed in part, the Issuer will execute and the Trustee will authenticate and deliver to the Owner thereof a new Bond or Bonds in Authorized Denominations equal in principal amount to the unredeemed portion of the Bond surrendered. Notwithstanding anything in the Indenture to the contrary, so long as the Bonds are held in the Book-Entry System, the Bonds will not be delivered as set forth above; rather, transfers of Beneficial Ownership of such Bonds to the person indicated will be effected on the registration books of the Securities Depository pursuant to its rules and procedures. See "APPENDIX L—BOOK-ENTRY-ONLY SYSTEM."

Selection of Bonds To Be Redeemed. In the case of any mandatory redemption for remediation in part of the Bonds of any maturity, if less than all of the Bonds with a stated maturity in (or with a stated maturity to be called pursuant to mandatory sinking fund redemption) any year are to be redeemed, the Trustee will select Bonds of each series of such stated maturity for redemption in proportion to the aggregate principal amounts of each such series and maturity then Outstanding. If less than all of the Bonds of like maturity are called for redemption, the particular Bonds or portions of Bonds to be redeemed are to be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate, from Bonds not previously called for redemption; provided, however, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination to be redeemed will be in the principal amount of such minimum Authorized Denomination or a multiple thereof. In selecting Bonds for redemption, the Trustee will treat each Bond of a denomination of more than the minimum Authorized Denomination as representing that number of Bonds of the minimum Authorized Denomination which is obtained by dividing by such minimum Authorized Denomination the principal amount of such Bond.

Exchange, Transfer and Registration

So long as the Bonds are maintained in book-entry form, the Beneficial Owners thereof will have no right to receive physical possession of the Bonds, and transfers of ownership interests in the Bonds will be made through book entries by DTC and its Participants, as described under "APPENDIX L—BOOK-ENTRY-ONLY SYSTEM."

The ownership of Bonds will be registered and transferred only upon the books of the Issuer, (the "***Bond Register***") which will be kept for such purposes at the Principal Office of the Trustee, by the Owners thereof in person or by their attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or its duly authorized attorney. Upon the registration of transfer of any Bond, the Issuer will issue in the name of the transferee a new Bond or Bonds of the same aggregate principal amount, series and maturity as the surrendered Bond.

The Issuer and the Trustee may deem and treat the person in whose name any Bond will be registered upon the Bond Register as the absolute owner of such Bond, whether such Bond will be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such registered Owner or upon its order will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Issuer nor the Trustee will be affected by any notice to the contrary.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Trust Estate

The Bonds will be special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate. The Bonds will not be payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the provisions of the Indenture permitting the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State, the Issuer, the City or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the City, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the Issuer, the City, the State or any political agency (other than the special obligation of the Issuer as provided in the Indenture).

The primary and expected source of Revenues pledged under the Indenture are the payments to be received by the Issuer from the City under the Supply Agreement. All payment obligations of the City under the Supply Agreement, including the City's obligation to pay the Contract Price to the Issuer for gas delivered or deemed delivered under the Supply Agreement, are limited obligations payable solely from the City's Gas Enterprise Fund. The City has no obligation to make any payment to the Issuer for gas not delivered or deemed delivered to the City in accordance with the Supply Agreement. In no event will the City be obligated to exercise the power of taxation in order to make such payments.

The City's obligation to pay the Contract Price for gas delivered or deemed delivered pursuant to the Supply Agreement will be classified as an operating expense of its Gas Enterprise Fund. *Operating expenses, which also include payments for transmission of gas, operation and maintenance of the Gas Enterprise and personnel expenses, are payable from Gas Enterprise Revenues on a basis subordinate to the payment of the City's outstanding 2005 Gas Utility Bonds and Subordinate Commercial Paper Notes and payment obligations under the CP Reimbursement Agreement and any additional First Lien Obligations, Second Lien Obligations or Subordinate Obligations issued by the City in the future.* The City's obligation to make payments under the Supply Agreement will be payable solely from amounts on deposit in the Gas Enterprise Fund. No other funds or accounts of the City (including, but not limited to, the City General Fund) will be liable for payments owed under the Supply Agreement. See "APPENDIX A—THE LONG BEACH GAS AND OIL DEPARTMENT AND THE GAS ENTERPRISE—Financial Information—Outstanding Indebtedness" for additional information on the City's prior pledge of Gas Enterprise Revenues.

The Trust Estate

As security for payment of the principal of and premium, if any, and interest on the Bonds, pursuant to the Indenture, the Issuer has pledged and assigned to, and granted a security interest to the Trustee in, the following described property (collectively, the "*Trust Estate*"):

- (a) the proceeds of the sale of the Bonds, subject to the application of funds for the purposes and on the terms and conditions set forth in the Indenture;
- (b) all right, title and interest of the Issuer in, to and under the [Prepaid Gas Agreement, the Seller Guarantee,] the Supply Agreement, the Funding Agreement, the Customer Surety Bond, the Funding Guarantee, the Issuer Commodity Swap and the Interest Rate Swaps;
- (c) the Revenues, as defined below;
- (d) any Termination Amounts and any amount received pursuant to the Seller Guarantee in respect of the Termination Amount,
- (e) any Mandatory Termination Advance and any amount received pursuant to the Seller Guarantee in respect of the Mandatory Termination Advance; and
- (f) all Funds established by the Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof;

subject with respect to clauses (a), (c), (d) and (e) to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

"*Revenues*," as defined in the Indenture, means (a) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Issuer from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Issuer under the Supply Agreement, the Prepaid Gas Agreement, the Seller Guarantee, the Customer Surety Bond or otherwise payable to it for the sale and/or transportation of gas or otherwise with respect to the Gas Supply (but excluding therefrom: (i) any Termination Amount; (ii) any Unearned Amount; (iii) amounts paid by or on behalf of the Issuer for the mandatory redemption of Bonds for remediation; (iv) amounts paid under the Supply Agreement after the termination thereof; and (v) any upfront payment made by a Qualified Provider); (b) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (c) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to the Indenture and paid or required to be paid into the Revenue Fund; (d) any Commodity Swap Receipts and Interest Rate Swap Receipts received by the Issuer; and (e) any amounts paid under the Funding Agreement or the Funding Guarantee, but excluding therefrom any amounts paid as a Mandatory Termination Advance and any amounts advanced under the Funding Guarantee in connection with a Mandatory Termination Advance.

[The Trust Estate does not include the rights, title and interest of the Issuer in, to and under the Prepaid Gas Agreement or the Seller Guarantee.] The Trust Estate also does not include the Unearned Amounts.

Revenues and Flow of Funds

Pursuant to the Indenture, the following funds will be established and held by the Trustee, with the exception of the Operating Fund, which will be established and held by the Issuer:

- (a) the Project Fund;
- (b) the Cost of Issuance Fund;
- (c) the Revenue Fund;
- (d) the Debt Service Fund;
- (e) the Commodity Swap Payment Fund;
- (f) the Rebate Fund;
- (g) the Redemption Fund;
- (h) the Termination Fund; and
- (i) the Operating Fund.

Within the funds held by the Trustee, the Trustee may create one or more accounts or subaccounts in any fund as may facilitate the administration of the Indenture.

Project Fund. There will be paid into the Project Fund, from the proceeds of the Bonds, the amount required to make the Prepayment to the Seller in accordance with the Prepaid Gas Agreement.

Cost of Issuance Fund. Money in the Cost of Issuance Fund will be used by the Trustee to pay Costs of Issuance as provided in the Indenture. Upon the receipt by the Trustee of a certificate of Written Request of the Issuer requesting the Trustee to close the Cost of Issuance Fund, the Trustee will transfer any moneys remaining in the Cost of Issuance Fund to the Debt Service Fund.

Revenue Fund. All Revenues will be deposited promptly by the Trustee upon receipt thereof into the Revenue Fund, except that Interest Rate Swap Receipts will be deposited upon receipt thereof directly into the Debt Service Fund.

Payments into Certain Funds. In each month during which there is a deposit of Revenues into the Revenue Fund (but in no case later than the respective dates set forth below), the Trustee will transfer to the following funds in the following order of priority (except as provided in clause (b) below, with the full amount to be transferred to any Fund in a month to be transferred to such fund before any transfer is made to a fund with a lower priority), the amounts set forth below (such transfers to be made in such a manner so as to assure good funds in such funds on the respective dates set forth below):

- (a) to the Debt Service Fund: not later than the twenty-fifth of such month, or if such day is not a Business Day, then the next succeeding Business Day, the required monthly deposits to the Debt Service Fund (the “*Scheduled Debt Service Fund Deposit*”) for such month; provided, that if any moneys from the initial draw on the Customer Surety Bond have been deposited in the Revenue Fund in such month, the Trustee will transfer to the Debt Service Fund the Scheduled Debt Service Fund Deposit for such month and each of the next two succeeding months;

(b) if the Issuer has issued Refunding Obligations, to the debt service fund or funds for such Refunding Obligations the amounts required to be deposited in such funds pursuant to the proceedings and documents pursuant to which such Refunding Obligations were issued; provided, that if there are not sufficient moneys in the Revenue Fund to make the full transfers required by this clause (b) and the preceding clause (a), such transfers will be made pro rata based on the respective amounts due;

(c) to the Commodity Swap Payment Fund: not later than the twenty-fifth of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount, if any, required so that the balance credited to the Commodity Swap Payment Fund equals the amount necessary for the payment of the Commodity Swap Payment, if any, coming due in such month;

(d) to the Rebate Fund: not later than the last day of such month, the amount, if any, required so that the balance credited to the Rebate Fund equals the amount required to be on deposit in the Rebate Fund pursuant to the Tax Agreement;

(e) to the Redemption Fund: not later than the twenty-fifth of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount specified in a written direction of the Issuer for the optional redemption of Bonds; and

(f) to the Operating Fund: not later than the last day of such month, the remaining balance in the Revenue Fund after making the foregoing transfers described in the preceding clauses (a) through (e).

Debt Service Fund. The amounts credited to the Debt Service Fund from the Revenue Fund will be applied first, on each Bond Payment Date, to the payment of Debt Service payable on such Bond Payment Date, and then, on each Interest Rate Swap Payment Date (February 15, May 15, August 15 and November 15 with respect to the Series 2007B Interest Rate Swap and the Series 2007C Interest Rate Swap; and the 15th day of each month with respect to the Series 2007D Interest Rate Swap) to the payment of any Interest Rate Swap Payments then due. Any amount remaining in the Debt Service Fund after each November 15 will be transferred to the Operating Fund; provided that before any such transfer to the Operating Fund any such remaining amount will be applied to reimburse any advance under the Funding Agreement or the Funding Guarantee.

Commodity Swap Payment Fund. Amounts credited to the Commodity Swap Payment Fund will be applied from time-to-time by the Trustee to the payment of the Commodity Swap Payments. Amounts credited to the Commodity Swap Payment Fund that the Issuer at any time determines to be in excess of the requirements of such Fund will be applied to make up any deficiencies in the Debt Service Fund. Any balance of such excess not required to be so applied will be transferred to the Revenue Fund.

Rebate Fund. The Trustee will apply amounts in the Rebate Fund to the payment when due of the Rebate Payments as set forth in the Tax Agreement. Subject to the transfer provisions described in the following paragraph, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to make the Rebate Payment to the United States of America, and none of the Issuer, the City, the Trustee or the Owners has any rights in or claim to such moneys.

Upon receipt of written directions from the Issuer, the Trustee will remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Issuer so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed in writing by the Issuer. Any funds remaining in the Rebate Fund after

redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Payment and payment of all other amounts due and owing pursuant to the Indenture will be withdrawn and remitted to the Issuer.

Redemption Fund. In addition to the deposit of any Revenues as described under “Payment into Certain Funds” above, the Trustee will deposit all amounts which are not Revenues received from the Issuer for deposit into the Redemption Fund, including amounts deposited in connection with a mandatory redemption of Bonds for remediation and transfers from the Operating Fund. Mandatory amounts on deposit in the Redemption Fund will be applied by the Trustee to the mandatory redemption of outstanding Bonds for remediation and/or for the optional redemption of Bonds as directed in a written direction of the Issuer. Any amounts remaining on deposit in the Redemption Fund following the redemption of all of the Bonds to be redeemed, will be transferred to the Operating Fund.

Termination Fund. In the event an Early Termination Date is established for the Prepaid Gas Agreement, the Issuer will direct the Seller to pay the Termination Amount directly to the Trustee for the account of the Issuer. The Trustee will deposit the Termination Amount into the Termination Fund. On the twenty-fifth day of the month in which the Bonds are subject to mandatory redemption on an Early Redemption Date, after making any payments to be made from the Debt Service Fund and/or the Commodity Swap Payment Fund on such date, the Trustee will transfer all moneys in the Revenue Fund, the Debt Service Fund and the Commodity Swap Payment Fund to the Termination Fund. The amounts deposited into the Termination Fund will be applied by the Trustee first to the mandatory redemption of all Outstanding Bonds pursuant to the provisions in the Indenture relating to mandatory redemption on the Early Redemption Date then to the payment of any amounts due under the Interest Rate Swaps and then to the payment of any amounts due under the Issuer Commodity Swap.

To the extent that the balance in the Termination Fund is not sufficient to pay the Redemption Price plus accrued interest on the Bonds to be redeemed on the Early Redemption Date, and such deficiency is a Covered Termination Deficiency under the Funding Agreement, the Trustee will provide notice to the Seller of a Covered Termination Deficiency under the Funding Agreement and draw the full amount of such deficiency as a Mandatory Termination Advance thereunder. The full amount of the Mandatory Termination Advance will be deposited in the Termination Fund.

Any amounts remaining on deposit in the Termination Fund following the redemption and payment of all Outstanding Bonds and after payment of any amounts due to the Seller, the Guarantor, the Commodity Swap Counterparty or any Interest Rate Swap Counterparty will be transferred to the Operating Fund.

Operating Fund. The Issuer will apply amounts credited to the Operating Fund to any one or more of the following purposes (as the Issuer determines and without any order of priority):

- (a) payment of administrative or other expenses of the Issuer relating to the Gas Supply;
- (b) rebates to the City under the Supply Agreement; and
- (c) the purchase or redemption of Bonds and expenses in connection therewith.

Any purchase of Bonds (or portions thereof) by or at the direction of the Issuer pursuant to the Indenture may be made with or without tenders of Bonds and at either public or private sale, in such manner as the Issuer may determine.

Payments Under the Customer Surety Bond

If the Trustee has not received payment from the City of all or any portion of the Contract Price payments due by 1:30 p.m.], New York City time on the fourth Business Day following the twenty-fifth day of any month (beginning on November 25, 2007), or if such day is not a Business Day, the next succeeding Business Day, the Trustee will make a claim under the Customer Surety Bond for the unpaid portion of such Contract Price payments on such date. The Trustee will deposit any amount received from the Surety Provider in the Revenue Fund and apply such amounts as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Revenues and Flow of Funds." The Customer Surety Bond guarantees only the payments required to be made by the City for the Contract Price of the gas to be delivered to the City under the Supply Agreement, and does not guarantee any other payments, including but not limited to costs, expenses (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, which may be payable by the City to the Issuer under the Supply Agreement. The Customer Surety Bond does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER SURETY BOND AND THE SURETY PROVIDER"

Payments Under the Seller Guarantee

If at any time a payment is due to the Issuer by the Seller under the Prepaid Gas Agreement and the Trustee has not received the full amount of such payment, the Trustee will immediately make a demand for payment under the Seller Guarantee for the amount unpaid.

Pursuant to the Prepaid Gas Agreement, the Issuer or the Seller will provide notice to the Trustee if either party establishes an Early Termination Date, defined herein, for the Prepaid Gas Agreement. In connection with the establishment of an Early Termination Date, the Issuer and the Seller are required by the Prepaid Gas Agreement to prepare and deliver to the Trustee invoices specifying amounts payable in connection with the termination of the Prepaid Gas Agreement. If any of such invoices specifies that amounts are payable by the Seller and the Trustee has not received the full amount of such payment by the end of the second Business Day following the Early Termination Date, the Trustee will make a demand for payment from the Guarantor under the Seller Guarantee for the amount unpaid. See "THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE, THE INTEREST RATE SWAP GUARANTEE AND THE FUNDING GUARANTEE—The Seller Guarantee."

Payments Under the Funding Agreement

The Funding Agreement provides that in the event of a Covered Termination Deficiency or a Covered Swap Deficiency, the Seller will make a Mandatory Termination Advance or a Mandatory Swap Advance, as applicable, to the Trustee not later than 11:00 a.m. (Central time) on the day which is one day after the Seller's receipt of notice of the Covered Termination Deficiency or the Covered Swap Deficiency (or if such day is not a Business Day, the next succeeding Business Day). In the event of a Covered General Deficiency under the Funding Agreement, the Seller may at its sole option advance funds to the Issuer in respect of such Covered General Deficiency. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement."

Payments Under the Funding Guarantee

If the Trustee has not received payment from the Seller of an advance due in respect of a Covered Termination Deficiency or a Covered Swap Deficiency, as applicable, the Trustee will immediately demand payment from the Guarantor under the Funding Guarantee for the payment of such amount. See

“THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE, THE INTEREST RATE SWAP GUARANTEE AND THE FUNDING GUARANTEE—The Funding Guarantee.”

No Additional Bonds

Pursuant to the Indenture, the Issuer will covenant not to issue any bonds, notes, debentures or other evidences of indebtedness of similar nature, other than the Bonds and Refunding Obligations, or otherwise incur obligations other than the Issuer Commodity Swap and the Interest Rate Swaps, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate and not create or cause to be created any lien or charge on the Trust Estate other than the lien and charge created by the Indenture, the lien and charge to secure such Refunding Obligations and any lien to secure Commodity Swap Payments or the Interest Rate Swap Payments.

PRO FORMA DEBT SERVICE REQUIREMENTS

The following table sets forth the pro forma debt service requirements for the Bonds.

Table 1
Pro Forma Debt Service Requirements for the Bonds¹

Bond Year Ended November 15	Series 2007A Bonds		Series 2007B Bonds		Series 2007C Bonds		Series 2007D Bonds		Total Debt Service On All Bonds
	Principal	Interest	Principal	Interest ²	Principal	Interest ³	Principal	Interest ⁴	
2007									
2008									
2009									
2010									
2011									
2012									
2013									
2014									
2015									
2016									
2017									
2018									
2019									
2020									
2021									
2022									
2023									
2024									
2025									
2026									
2027									
2028									
2029									
2030									
2031									
2032									
2033									
2034									
2035									
2036									
2037									
Total									

¹ Numbers may not total due to rounding to nearest dollar.

² Assumes the Series 2007B Bonds maturing on November 15, 20__, November 15, 20__ and November 15, 20__ will bear interest at __%, __% and __%, respectively, based upon the fixed interest rates payable by the Issuer under the Series 2007B Interest Rate Swap.

³ Assumes the Series 2007C Bonds maturing on November 15, 20__, November 15, 20__ and November 15, 20__ will bear interest at __%, __% and __%, respectively, based upon the fixed interest rates payable by the Issuer under the Series 2007C Interest Rate Swap.

³ Assumes the Series 2007D Bonds maturing on November 15, 20__, November 15, 20__ and November 15, 20__ will bear interest at __%, __% and __%, respectively, based upon the fixed interest rates payable by the Issuer under the Series 2007D Interest Rate Swap.

Source: City of Long Beach.

THE GAS SUPPLY ACQUISITION

General

The purchase of a portion of the City's natural gas requirements from the Issuer for an approximately 30-year period will enable the City to acquire a fixed supply of that portion of its natural gas requirements at a discount from the Index Price and the Alternate Index Price.

Deliveries of the natural gas to be purchased by the City will commence on October 1, 2007 and continue through [November 15], 2037. The daily quantity of gas (the "**Daily Contract Quantity**") to be purchased by the City during this period will vary from month to month, but not from year to year, and is set forth in Appendix I hereto. The City has projected that the Daily Contract Quantity to be delivered in any month (the "**Monthly Contract Quantity**") will equal approximately 80-90% of its monthly natural gas requirements. On an annual basis, the quantity of gas to be delivered under the Supply Agreement represents approximately 80-90% of the City's projected natural gas requirements. In making this projection, the City has assumed that its natural gas requirements will remain constant over the 30-year period.

[At this time, the City has no contractual commitment to purchase all or any portion of its remaining gas requirements from any particular supplier; however, the City intends to enter into one or more gas purchase agreements in order to secure the remaining portion of its natural gas requirements. The Supply Agreement does not prohibit or restrict the City from entering into other gas supply agreements in the future, including agreements with the Seller, for all or any portion of its natural gas requirements.] [Description of arrangement to come] [Where does City get remaining gas?]

The Prepaid Gas Agreement

Set forth below is a summary of certain provisions of the Prepaid Gas Agreement. This summary does not purport to be a complete description of the terms and conditions of the Prepaid Gas Agreement, and reference is made to the entire Prepaid Gas Agreement, copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

Term. The Prepaid Gas Agreement will be effective from September []*, 2007 and continue in effect until [November 15], 2037, unless terminated earlier pursuant to its terms.

Purchase and Sale of Gas. Under the Prepaid Gas Agreement, the Seller will agree to deliver specified daily quantities of gas each month over approximately 30 years at a fixed price, and the Issuer will agree to make the Prepayment on September [], 2007* (the date of delivery of the Bonds) to the Seller for all of the costs of the gas to be delivered. The total quantity of gas to be delivered by the Seller over the term of the Prepaid Gas Agreement will be approximately 2.4 billion cubic feet. The approximate daily quantities of gas to be delivered under the Prepaid Gas Agreement range from a high of approximately [36,107] MMBtus in the winter months to a low of approximately [15,485] MMBtus at other times during the year. See "APPENDIX I—SCHEDULE OF DAILY CONTRACT QUANTITIES."

Delivery of Gas. Under the Prepaid Gas Agreement, the Seller is required to deliver the Daily Contract Quantity of gas at the Delivery Point (initially, Southern California Border (the "**Primary Delivery Point**")). Subject to the Issuer's prior written approval, which is in Issuer's sole discretion, the Seller may deliver gas at Alternate Delivery Points; provided, however, the Seller will reimburse the

* Preliminary; subject to change.

Issuer for all incremental basis, incremental index premium and additional transportation costs, if any, specified by the Issuer in connection with its approval of the Alternate Delivery Points and any additional incremental basis, incremental index premium and additional transportation costs reasonably incurred by the Issuer, as a result of the Seller delivering quantities of gas at Alternate Delivery Points.

Upon 90 days prior written notice, the Issuer, or the City directly, may request the Seller to deliver gas at an Alternate Delivery Point, in which case all terms of the Prepaid Gas Agreement applicable to the delivery of gas to the Primary Delivery Point will apply to the delivery of gas to the Alternate Delivery Point. To the extent that the delivery to an Alternate Delivery Point results in incremental basis costs, incremental index premium, additional transportation costs or other costs or expenses for the Seller, the Issuer will reimburse the Seller for reasonable additional costs associated with the Seller's delivery of gas to the Alternate Delivery Point. The Seller's obligation to deliver gas to an Alternate Delivery Point will be contingent upon the Seller and the Issuer reaching an agreement on the incremental basis costs, incremental index premium, additional transportation costs or other costs or expenses to be reimbursed to the Seller by the Issuer.

The title to the gas delivered under the Prepaid Gas Agreement will pass from the Seller to the Issuer at the Delivery Point for such gas.

Nonperformance by Seller. If the Seller fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Prepaid Gas Agreement (a "**Seller Delivery Default**"), the Seller will pay the Issuer an amount equal to:

(a) the product of (i) the quantity of gas that the Seller failed to deliver and (ii) the sum of the Index Price plus \$0.05 per MMBtu, plus

(b) (1) if the Issuer has replaced the gas utilizing the Cover Standard, the product of (A) the positive difference, if any, obtained by subtracting the Index Price from the price paid by the Issuer for such replacement gas utilizing the Cover Standard, including any additional transportation and related charges, such as storage, extraction and injection costs, incurred as a result of the Seller Delivery Default, and (B) the quantity of the gas the Seller failed to deliver; or

(2) If (1) above is not applicable, the product of (A) the positive difference, if any, obtained by subtracting the Index Price from any cash out price charged to the Issuer by any Transporter or if a cash out price was not charged by the Transporter, the Spot Price and (B) the quantity of gas that the Seller failed to deliver.

Issuer Failure to Receive Gas. If the Issuer fails on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the applicable Delivery Point of the quantity of gas required to be received at such Delivery Point on such day from the Seller (a "**Purchaser Receipt Failure**"), the Seller will pay the Issuer an amount equal to:

(a) the product of (i) the quantity of gas that is subject to a Purchaser Receipt Failure and (ii) the positive difference, if any, of the Index Price minus \$0.05 per MMBtu, minus

(b) (1) If the Seller has sold the gas to a Third Party, utilizing the Cover Standard, the product of (A) the positive difference, if any, obtained by subtracting the price that the Seller receives for such gas using the Cover Standard, including any additional transportation and related charges incurred as a result of the Purchaser Receipt

Failure, from the Index Price and (B) the quantity of the gas that is subject to a Purchaser Receipt Failure; or

(2) If (1) above is not applicable, the product of (A) the positive difference, if any, obtained by subtracting any price at which the gas is cashed out to the Seller by any Transporter or if the Gas is not cashed out by a Transporter, the Spot Price from the Index Price and (B) the quantity of the gas that is subject to a Purchaser Receipt Failure.

Remarketing of Gas by the Seller.

Optional Remarketing. So long as the Supply Agreement is in effect and no Anticipatory Tax Event Period has occurred and is continuing and no Tax Event has occurred, if requested by the Issuer in writing, the Seller will remarket that portion of the Gas Supply specified by the Issuer from time-to-time in each notice ("***Optional Remarket Gas***") as follows:

Monthly Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more months by the Monthly Notice Time, the Seller will remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to:

(a) for each day during the Alternate Index Period (i) the Index Price for all of the Gas Supply that is remarketed, up to an amount equal to the greater of (A) 50% of the Daily Contract Quantity for such day, or (B) 50% of the Gas Supply remarketed on such day, and (ii) the Alternate Index Price for all Gas Supply remarketed exceeding the amount of Gas Supply remarketed under (i); or

(b) after the Alternate Index Period, the Index Price.

Daily Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more days by the Daily Notice Time, the Seller will remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Spot Price.

Mandatory Remarketing.

Anticipatory Remarket Gas. While the Supply Agreement is in effect, during each Anticipatory Tax Event Period, the Issuer will deliver a Retention Notice to the Seller by the Monthly Notice Time and the Seller will use commercially reasonable efforts to remarket: (a) the Monthly Anticipatory Tax Event Remarket Gas for a Qualifying Use and for a Monthly period at a commercially reasonable price but in any event no less than the Index Price less a discount of up to \$0.05 per MMBtu, unless the Issuer agrees to a different price in writing; and (b) the Daily Anticipatory Tax Event Remarket Gas for a Qualifying Use and for a day at a commercially reasonable price but in any event no less than the Spot Price, unless the Issuer agrees to a different price in writing. If the Seller cannot remarket Anticipatory Tax Event Remarket Gas for a Qualifying Use at the price set forth in the preceding sentence, Seller will remarket the Anticipatory Tax Event Remarket Gas to itself, or a Third Party for Non-Qualifying Use, as follows: (i) the Monthly Anticipatory Tax Event Remarket Gas will be remarketed for a Monthly period at a Remarketing Price equal to the Index Price, and (ii) the Daily Anticipatory Tax Event Remarket Gas will be remarketed for a day at a Remarketing Price equal to the Spot Price. If no Retention Notice is received by the Seller with respect to a portion of the Gas Supply by the Monthly Notice Time, such Gas Supply will constitute Daily Anticipatory Tax Event Remarket Gas on each day during the applicable Month unless a Retention Notice is received by the Seller with respect to a portion of the Gas Supply by the Daily Notice Time for a day during an Anticipatory Tax Event.

Tax Event Remarket Gas. While the Supply Agreement is in effect, if a Tax Event has occurred, the Issuer will deliver a Retention Notice to the Seller by the Monthly Notice Time and the Seller will remarket the Tax Event Remarket Gas for a Qualifying Use at a commercially reasonable price but in any event no less than the Contract Price; except that if the Seller cannot remarket Tax Event Remarket Gas for a Qualifying Use at a price at least equal to the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, the Seller will remarket the Tax Event Remarket Gas to itself, or a Third Party for a Non-Qualifying Use, as follows: (a) the Monthly Tax Event Remarket Gas will be remarketed for a monthly period at a Remarketing Price equal to the Index Price; and (b) the Daily Tax Event Remarket Gas will be remarketed for a day at a Remarketing Price equal to the Spot Price.

Termination Remarket Gas. Upon receipt of notice that the Supply Agreement is no longer in effect, the Seller will use commercially reasonable efforts to remarket the Termination Remarket Gas at a commercially reasonable price but in any event no less than the Contract Price; except that: (a) if a Tax Event has occurred, the Seller will remarket the Termination Remarket Gas for a Qualifying Use at a Remarketing Price equal to a commercially reasonable price but in any event no less than the Contract Price; and (b) if, after the occurrence of a Tax Event, the Seller cannot remarket the Termination Remarket Gas for a Qualifying Use at a Remarketing Price no less than the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, the Seller will remarket the Termination Remarket Gas to itself, or a Third Party for a Non-Qualifying Use, at the Contract Price.

Non-Payment by the City to the Issuer. If the City fails to pay amounts due to the Issuer under the Supply Agreement as required under the Supply Agreement, the Issuer will notify the Seller in writing of such failure. If such failure is not cured within 4 Business Days, then the Seller will use commercially reasonable efforts to remarket the gas required by the Prepaid Gas Agreement to be delivered to the Issuer for Qualifying Uses on all subsequent days until the day following the day in which the City cures such payment default at a Remarketing Price equal to a commercially reasonable price but in any event no less than the Contract Price. See "THE CUSTOMER SURETY BOND AND THE SURETY PROVIDER."

Remediation. To maintain the Tax-Exempt Status of the Bonds, and except as permitted by Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2) and as otherwise approved by an opinion of Tax Counsel as preserving the Tax-Exempt Status of the Bonds, the Issuer is obligated to apply, or caused to be applied, the Gas Supply for a Qualifying Use. To the extent certain amounts of gas are not applied for a Qualifying Use, the corresponding price paid for such gas ("**Proceeds Subject to Remediation**") may be applied to a Remediation Use. "**Remediation Use**" means, with respect to Proceeds Subject to Remediation, either: (a) the purchase of gas with such Proceeds Subject to Remediation and the sale of such gas for a Qualifying Use (as evidenced by a Qualifying Use Certificate); (b) the application of such Proceeds Subject to Remediation by the City to the purchase of gas, which gas is applied by the City for a Qualifying Use; or (c) the application of Proceeds Subject to Remediation to the purchase of electricity in compliance with Treasury Regulation Section 1.148-1(e)(2)(iii)(B)(2).

Under the Supply Agreement, the City will establish and maintain a Remediation Fund so long as any Bonds are outstanding under the Indenture. The City will deposit in the Remediation Fund all amounts received with respect to gas remarketed for a Non-Qualifying Use. The City will use commercially reasonable efforts to cause all Proceeds Subject to Remediation in the Remediation Fund to be applied for a Remediation Use within 12 months of the applicable Receipt Date.

In the event that funds have been on deposit in the Remediation Fund for more than 12 months, or the amount of non-qualifying use is 50% or more of the limitation on non-qualifying use, the City will

make all Proceeds Subject to Remediation available to the Seller to apply to a Remediation Use within the limitations of the Prepaid Gas Agreement.

In the event that any Proceeds Subject to Remediation remain on deposit in the Remediation Fund for 22 months after the applicable Receipt Date, the City will transfer such Proceeds Subject to Remediation and any other required funds to the Trustee for deposit in the Redemption Fund to be applied to the redemption of Bonds as directed by the Issuer and approved by Tax Counsel as preserving the Tax-Exempt Status of the Bonds. See "TERMS OF THE BONDS—Redemption—Mandatory Redemption—Mandatory Redemption for Remediation" herein.

Force Majeure. Except with regard to a party's obligation to make payment(s) due under the Prepaid Gas Agreement, neither party will be liable to the other for failure to perform an obligation under the Prepaid Gas Agreement, to the extent such failure was caused by Force Majeure. Neither party will be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances: (a) the curtailment of interruptible or secondary Firm transportation unless primary, in-path, Firm transportation is also curtailed; (b) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; (c) economic hardship, including, without limitation, the Seller's ability to sell gas at a higher or more advantageous price than the price payable under the Prepaid Gas Agreement, the Issuer's ability to purchase gas at a lower or more advantageous price than the price payable under the Prepaid Gas Agreement, or a regulatory agency disallowing, in whole or in part, the pass-through of costs resulting from the Prepaid Gas Agreement; (d) the loss of the Issuer's market(s) or the Issuer's inability to use or resell gas purchased under the Prepaid Gas Agreement; or (e) the loss or failure of the Seller's gas supply or depletion of reserves, except, in the case of (d) and (e) to the extent resulting from Force Majeure. The party claiming Force Majeure will not be excused from its responsibility for Imbalance Charges. Notwithstanding anything to the contrary in the Prepaid Gas Agreement, the Seller and the Issuer will agree that the settlement of strikes, lockouts or other industrial disturbances will be within the sole discretion of the party experiencing such disturbance.

During any Delivery Month in which all or a portion of the Monthly Contract Quantity is not delivered or received due to Force Majeure, the Seller will pay to the Issuer:

- (a) for each day during the Alternate Index Period,
 - (i) the Index Price multiplied by the volume of Gas Supply that is not delivered or received on such day due to the event of Force Majeure up to the greater of (A) 50% of the Daily Contract Quantity for such day, or (B) 50% of the Gas Supply not delivered or received on such day due to the event of Force Majeure, plus
 - (ii) the Alternate Index Price multiplied by the volume of Gas Supply that is not delivered or received on such day due to the event of Force Majeure exceeding the amount of Gas Supply subject to the Index Price under (i); or
- (b) after the Alternate Index Period, the Index Price multiplied by the volume of Gas Supply that is not delivered or received on such day.

Payment of amounts specified in this section will satisfy the Seller's obligation to deliver, and the Issuer's obligation to accept, the gas which was not delivered or accepted due to Force Majeure.

Imbalances. If (a) an imbalance occurs on the system of a Transporter receiving or transporting Gas on behalf of the Issuer which is caused by the delivery by the Seller or any pipeline or any other party

receiving or transporting gas on behalf of the Seller of less or more than the quantity of gas scheduled to be delivered under the Prepaid Gas Agreement (an “*Imbalance*”) for any day during the term of the Prepaid Gas Agreement (in which case the Seller will be deemed to be the “Responsible Party”), or (b) an Imbalance occurs on the system of a Transporter receiving or transporting gas on behalf of the Seller because of the receipt by the Issuer or any pipeline or other party receiving or transporting gas on behalf of the Issuer of more or less than the quantity of gas scheduled to be received under the Prepaid Gas Agreement on any day during the term of the Prepaid Gas Agreement (in which case the Issuer will be deemed to be the “Responsible Party”), the Responsible Party will be liable to the other party for any associated Imbalance Charges. The parties will use commercially reasonable efforts to avoid the imposition of any Imbalance Charges. If the Issuer or the Seller receives an invoice from a Transporter that includes Imbalance Charges for an Imbalance under the Prepaid Gas Agreement, the parties will determine the validity as well as the cause of such Imbalance Charges.

Taxes.

Taxes. The Prepayment includes full reimbursement for, and the Seller is liable for and will pay, or cause to be paid, or reimburse the Issuer if the Issuer has paid, all Taxes applicable to gas sold under the Prepaid Gas Agreement upstream of the Delivery Points. The Seller will indemnify, defend, and hold the Issuer harmless from any liability with respect to all such Taxes upstream of the Delivery Points. The Prepayment does not include reimbursement for, and the Issuer is liable for and will pay, cause to be paid, or reimburse the Seller if the Seller has paid, all Taxes applicable to gas sold under the Prepaid Gas Agreement at or downstream of the Delivery Point for such gas, including any such Taxes imposed or collected by a taxing authority with jurisdiction over the Issuer. The Issuer will indemnify, defend, and hold the Seller harmless from any liability with respect to all such Taxes at or downstream of the Delivery Points. Notwithstanding any of the preceding provisions to the contrary, each party will remain responsible for, and will pay, all taxes based on net income and net worth and all state franchise, license, and similar taxes required for the maintenance of corporate existence assessed, in each case, against the relevant party.

Material Tax Increase. Should either party (including, for purposes of this paragraph while the Supply Agreement is in effect, in the case of the Issuer, the City) become subject to a “Material Tax Increase” for which it is responsible as described in “—Taxes” above, such party may give notice to the other party of the Material Tax Increase. The Issuer and the Seller will then promptly commence negotiations in good faith in order to equitably adjust the rights and obligations of the parties under the Prepaid Gas Agreement in light of such Material Tax Increase; provided that any such adjustment to such rights and obligations must be made in compliance with the terms of the Indenture. If the parties are unable to reach agreement after 60 days, then the party affected by the Material Tax Increase may give notice to the other Party of its intent to terminate the Prepaid Gas Agreement. “*Material Tax Increase*” means a New Tax actually imposed by a governmental entity with jurisdiction to impose such New Tax (as confirmed by an opinion of nationally recognized tax counsel), the imposition of which materially adversely changes the economic benefit of the Prepaid Gas Agreement to the payer of the New Tax, which material adverse change will be documented by the party seeking termination of the Prepaid Gas Agreement to the extent reasonably requested by the other Party.

Change in Applicable Laws.

Adverse Governmental Action. In the event that FERC, Congress or any other regulatory authority with jurisdiction (a) imposes price controls on gas which materially and adversely affects a party’s rights or obligations under the Prepaid Gas Agreement or, while the Supply Agreement is in effect, the City’s or the Issuer’s rights or obligations under the Supply Agreement; (b) prohibits or prevents (other than for a period of less than 60 days) to a material extent (i) the fulfillment of the

obligations of the Seller or the Issuer under the Prepaid Gas Agreement or, while the Supply Agreement is in effect, the Issuer or the City under the Supply Agreement, or (ii) the transportation of the gas to be delivered under the Prepaid Gas Agreement; (c) directly or indirectly restricts, imposes conditions on or affects the Prepaid Gas Agreement or, while the Supply Agreement is in effect, the Supply Agreement, in a manner which materially and adversely affects a party's rights or obligations under the Prepaid Gas Agreement or the Issuer's or the City's rights under the Supply Agreement (each of the events described above being referred to in the Prepaid Gas Agreement as an "**Adverse Governmental Action**"), or if a governmental authority declares that an Adverse Governmental Action will be effective on a future date, then the party affected by such Adverse Governmental Action (in the case of the City, the Issuer) (the "**Affected Party**") will notify the other party of such Adverse Governmental Action. The Issuer and the Seller will then promptly commence negotiations in good faith in order to equitably adjust the rights and obligations of the parties under the Prepaid Gas Agreement in the light of such Adverse Governmental Action; provided that any such adjustment to such rights and obligations must be made in compliance with the terms of the Indenture. If the parties are unable to reach agreement after 60 days, then the Affected Party may give notice to the other party of its intent to terminate the Prepaid Gas Agreement.

Illegality. If any Adverse Governmental Action effective after the effectiveness of the Prepaid Gas Agreement would cause the continued performance under the Prepaid Gas Agreement, or while the Supply Agreement is in effect, the Supply Agreement, by an Affected Party to be in material violation of any law, enforcement action, rule, order or regulation (an "**Illegality**"), notwithstanding any provision in the Prepaid Gas Agreement to the contrary, the Affected Party (in the case of the City, the Issuer) may suspend the scheduling, delivery and receipt of gas under the Prepaid Gas Agreement effective upon notice to the other party. If the Illegality causes the performance of either party of any of its material obligations under the Prepaid Gas Agreement, or the performance of either party of any of its material obligations under the Supply Agreement, to be in material violation of a law, enforcement action, rule or regulation, then any resulting failure by a party to the Prepaid Gas Agreement or the Supply Agreement to perform thereunder will be treated as nonperformance by a party (including in the case of the City, the Issuer) as a result of Force Majeure. The Issuer and the Seller will endeavor in good faith to resolve the impact of the relevant Illegality or to equitably adjust the rights and obligations of the parties under the Prepaid Gas Agreement so as to permit performance to resume under the Prepaid Gas Agreement in compliance with, and not in violation of, any such law, enforcement action, rule, order, or regulation; provided that any such adjustment to such rights and obligations must be made in compliance with the terms of the Indenture. If performance under the Prepaid Gas Agreement is suspended for sixty (60) or more days pursuant to this paragraph, the Issuer or the Seller may, at its option, give notice to the other party and the City of its intent to terminate the Prepaid Gas Agreement.

Triggering Events; Termination of the Prepaid Gas Agreement.

Automatic Triggering Event. Under the Prepaid Gas Agreement, an automatic Triggering Event will be deemed to have occurred upon the occurrence of an early termination under any Seller Commodity Swap now existing or hereafter entered into between Seller and a Third Party which is a commodity price swap if such early termination results from either an event of default under the Seller Commodity Swap under which the Seller is the defaulting party or a termination event under the Seller Commodity Swap under which the Seller is the affected party.

Triggering Event at the Option of the Issuer. Under the Prepaid Gas Agreement, a Triggering Event will be deemed to have occurred, at the option of the Issuer, upon the occurrence of any of the following events:

- (a) the Seller, and the Guarantor on the Seller's behalf, fail to pay either: (i) any Gas Payment as invoiced; or (ii) fail to pay any undisputed amount due under the Prepaid Gas

Agreement other than a Gas Payment, in each case by 12:30 p.m. (Central time) on the second Business Day following the applicable Payment Date or, if such Payment Date is not a Business Day, two Business Days prior to the next succeeding Business Day following the Payment Date;

(b) a Bankruptcy Event occurs with respect to the Seller or the Guarantor;

(c) any representation or warranty given by the Seller proves to have been false or misleading when made and such misrepresentation or warranty has had or could reasonably be expected to have a material adverse effect on the Seller's ability to perform its obligations under the Prepaid Gas Agreement related to the delivery of gas or the making of payments under the Prepaid Gas Agreement;

(d) for reasons other than Force Majeure or a Purchaser Receipt Failure, the Seller delivers (i) no gas (other than replacement gas deemed delivered by the Seller pursuant to the Prepaid Gas Agreement) for a period of five consecutive days for which gas is required to be delivered; or (ii) less than 50% of the gas required to be delivered on any particular day (not including replacement gas deemed delivered by the Seller pursuant to the Prepaid Gas Agreement) for 15 cumulative days during any Contract Year during the Term of the Prepaid Gas Agreement;

(e) the occurrence of an Excess Gas Event. An "*Excess Gas Event*" means that subsequent to the issue date of the Bonds, due to events that occurred (or did not occur) or other changes in expectations, the gas to be delivered under the Prepaid Gas Agreement is no longer required for Qualifying Uses as evidenced exclusively by the following: (i) the Issuer or (while the Supply Agreement is in effect) the City, is unable to apply the gas then remaining to be delivered under the Prepaid Gas Agreement for a Qualifying Use; (ii) the Seller fails to remarket gas as set forth in the Prepaid Gas Agreement; and (iii) Proceeds Subject to Remediation currently on deposit in the Remediation Fund and deposited into such fund more than [twenty months prior to the month of such calculation] represent a volume of Non-Qualifying Prepaid Gas equal to or exceeding the Qualifying Use Limit;

(f) the termination of the Issuer Commodity Swap for reasons other than due to the Issuer's default;

(g) the occurrence of a Credit Downgrade of the Guarantor during the Term of the Prepaid Gas Agreement, and failure by the Seller within 10 days after the Credit Downgrade to post collateral equal to the Unearned Amount in accordance with the Prepaid Gas Agreement; and

(h) the termination of the Interest Rate Swaps for reasons other than the Issuer's default.

Triggering Event at the Option of the Seller. Under the Prepaid Gas Agreement, a Triggering Event will be deemed to have occurred at the option of the Seller upon the occurrence of any of the following events: (a) the termination of the Issuer Commodity Swap for any reason; (b) the termination of the Seller Commodity Swap for reasons other than the Seller's default; [and (c) the termination of the Interest Rate Swaps for reasons other than the Interest Rate Swap Counterparty's default].

Right To Establish Early Termination Date. Upon a Triggering Event described above under "Automatic Triggering Event," the Issuer will, and in the case of a Triggering Event described under "Triggering Event at the Option of the Issuer" above or the occurrence of the circumstances described under "—Taxes" or "—Change in Applicable Laws" above authorizing the Issuer to terminate the Prepaid

Gas Agreement, the Issuer may, but is not obligated to, establish a date that is the Early Termination Date and will promptly provide notice to the Seller and the Trustee specifying the relevant Triggering Event and the Early Termination Date. Upon a Triggering Event described in “Triggering Event at the Option of the Seller” above, or the occurrence of the circumstances described under “—Taxes” or “—Change in Applicable Laws” above authorizing the Seller to terminate this Prepaid Gas Agreement, the Seller may, but is not obligated to, establish a date that is the Early Termination Date and will promptly provide notice to the Issuer and the Trustee specifying the relevant Triggering Event and the Early Termination Date. In any case, the termination date so established will be referred to as the “*Early Termination Date*,” and the Term of the Prepaid Gas Agreement will cease on the Early Termination Date.

If the notice of an Early Termination Date is delivered on or before the 6th day preceding the end of a month, the Early Termination Date will be the last day of the month in which such notice is delivered. If the notice of an Early Termination Date is delivered after the 6th day preceding the end of a month, or the provisions described in “—Payments on Early Termination; Redemption of Bonds—Remarketing Proceeds and Termination Amount” below apply, the Early Termination Date will be the last day of the month next following the month in which such notice is delivered unless the party providing such notice elects that the Early Termination Date will be the last day of the month in which such notice is delivered, in which case the Early Termination Date will be the last day of the month in which such notice is delivered.

Payments on Early Termination; Redemption of Bonds.

Accrued Amounts. Within 2 Business Days following the Early Termination Date, the Seller and the Issuer will each submit to each other and the Trustee an invoice specifying any and all amounts known to be owed to it (and, with respect to payments other than Gas Payments, not disputed pursuant to the Prepaid Gas Agreement) by the other party under the terms of the Prepaid Gas Agreement, whether or not such amounts are otherwise then due and payable, including without limitation (a) invoiced amounts; and (b) uninvoiced amounts and/or amounts payable for physical deliveries or settlements that occurred prior to the Early Termination Date, and the applicable party will pay the amount so specified in the manner set forth in the Prepaid Gas Agreement.

Termination Amount and Unearned Amount. With respect to Triggering Events described under “—Triggering Events; Termination of the Prepaid Gas Agreement—Automatic Triggering Event” or “—Triggering Events at the Option of the Issuer”(except for a Triggering Event caused by the termination of the Issuer Commodity Swap for reasons other than the Issuer’s default) or notice of termination by the Seller pursuant to the provisions described under “—Taxes” or “—Change in Applicable Laws” above, within 2 Business Days following the Early Termination Date, the Seller will deposit the Termination Amount with the Trustee for deposit in the Termination Fund and the Unearned Amount with the Issuer for deposit in the Operating Fund.

Remarketing Proceeds and Termination Amount. With respect to Triggering Events described under “—Triggering Events; Termination of the Prepaid Gas Agreement—Triggering Event at the Option of the Seller” above, or a notice of termination by the Issuer pursuant to the provisions described under “—Taxes” or “—Change in Applicable Laws,” the Seller will deliver to the Issuer, and the Issuer will take delivery of, an amount of gas with a value equal to the Termination Amount at such Delivery Point or Delivery Points as designated by the Seller. The Seller will then immediately remarket such gas on behalf of the Issuer. The Seller will not be obligated to acquire, deliver and remarket such gas if the Seller determines, in its sole judgment, that such acquisition, delivery and/or remarketing would adversely affect the market price for gas at any Delivery Point or Delivery Points for such gas. In all events, within 2 Business Days following the Early Termination Date, the Seller will deposit with the Trustee the amount, if any, received from the remarketing of gas pursuant to such provision of the Prepaid

Gas Agreement plus the positive difference, if any, obtained by deducting such amount from the Termination Amount.

The Supply Agreement

Set forth below is a summary of certain provisions of the Supply Agreement. This summary does not purport to be a complete description of the terms and conditions of the Supply Agreement, and reference is made to the entire Supply Agreement, copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

Term. The Supply Agreement will be effective from September [], 2007* and continue in effect until [November 15, 2037], unless terminated earlier due to certain defaults, as set forth therein, or the termination of the Prepaid Gas Agreement.

Delivery and Receipt Obligations; Payment by the City. Beginning on [October 1, 2007], and on each day thereafter during the remaining Term of the Supply Agreement, the Issuer will deliver, or cause to be delivered, at the Delivery Point, and City will receive at the Delivery Point, the Daily Contract Quantity pursuant to the terms of the Supply Agreement. The Delivery Point and the Daily Contract Quantity are the same as those applicable to the sale and delivery of Gas to the Issuer under the Prepaid Gas Agreement and are subject to adjustment to the same extent. The title to the gas delivered under the Supply Agreement will pass from the Issuer to the City at the Delivery Point for such gas.

The City will pay the Contract Price for all gas delivered or deemed delivered by the Seller. The City will pay the Contract Price payments irrespective of any dispute or claim of Force Majeure disputed by the Issuer. "Contract Price" will equal the Applicable Index Price for the month in which the gas delivery occurs, less \$ ___ per MMBtu of gas delivered.

The "Applicable Index Price" shall be determined as follows:

- (a) For each day during the Alternate Index Period, the Applicable Index Price will be (i) the Index Price for all of the Gas Supply that is delivered up to an amount equal to 50% of the Daily Contract Quantity for such day; plus (ii) the Alternate Index Price for all of the Gas Supply that is delivered on such day exceeding the amounts of Gas Supply to which the Index Price in (i) applies; and
- (b) After the Alternate Index Period, the Applicable Index Price will be the Index Price.

Issuer Delivery Default. If the Issuer fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Supply Agreement (an "Issuer Delivery Default"), the City will have no obligation to pay for any of the Gas Supply that was not delivered as a result of such Issuer Delivery Default.

City Receipt Failure. If the City fails on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the applicable Delivery Point of the quantity of gas required to be delivered at such Delivery Point on such day pursuant to the Supply Agreement (a "City Receipt Failure"), the City will be still liable for the Contract Price for all gas as to which there is a City Receipt Failure. Pursuant to the Prepaid Gas Agreement, upon the failure of the Issuer to receive any gas to be

* Preliminary; subject to change.

delivered thereunder for any reason other than Force Majeure, the Seller is obligated to make certain payments to the Issuer. The Issuer will agree in the Supply Agreement to credit against the Contract Price payments due from the City in any month the amount paid by the Seller in such month with respect to an City Receipt Failure.

Payment Date for the Gas. The payment of the monthly net amount payable by the City for gas delivered or deemed delivered under the Supply Agreement will be made by the City by 12:30 p.m. (Central time) on the 25 day of the month next succeeding the month in which gas is delivered or deemed delivered under the Supply Agreement; provided, that if such payment date is not a Business Day, payment is due on the next succeeding Business Day. Except as otherwise provided in the Supply Agreement with respect to payments due to the Seller from the Remediation Fund, all payments by the City are to be made to the Revenue Fund. Notwithstanding any provision of the Supply Agreement or any other document, the City will not be obligated to make any payments under the Supply Agreement except from Gas Enterprise Revenues.

Source of City's Payments. The City will make the payments it is required to make under the Supply Agreement from Gas Enterprise Revenues, and only from such Gas Enterprise Revenues, and as a charge against such Gas Enterprise Revenues, as an operating expense of the Gas Enterprise; provided, however, that the City, in its discretion, may apply any legally available moneys to the payment of amounts due under the Supply Agreement. The City will covenant and agree in the Supply Agreement that it will establish, fix, prescribe, maintain, and collect rates, fees, rentals and charges in connection with the Gas Enterprise and for services rendered in connection therewith so as to provide Gas Enterprise Revenues sufficient, together with all other available revenues, to enable the City to pay to the Issuer all amounts payable under the Supply Agreement and to pay all other amounts payable from the Gas Enterprise Revenues, and to maintain any required reserves. See "APPENDIX A—THE LONG BEACH GAS AND OIL DEPARTMENT AND THE GAS ENTERPRISE—Financial Information—Outstanding Indebtedness" for additional information on the City's prior pledge of Gas Enterprise Revenues.

Security for Performance of Obligations. A portion of the City's obligation to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed under the Customer Surety Bond. The Customer Surety Bond will guarantee the Contract Price for up to 90 days of Gas Supply at maximum volumes, not to exceed 2,434,169* MMBtus, at a maximum price of \$40/MMBtu. The Customer Surety Bond will be issued in the amount of \$97,366,760*. The Customer Surety Bond will not guarantee any other payment obligations of the City under the Supply Agreement. The Customer Surety Bond will not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER SURETY BOND AND THE SURETY PROVIDER"

Termination of Supply Agreement. Notwithstanding anything in the Supply Agreement to the contrary, the Supply Agreement will automatically terminate, without the necessity of any action by, or notice to, either party upon the termination of the Prepaid Gas Agreement or upon the failure of the City to make a Contract Price payment within 4 Business Days of the date such payment is due.

Covenants of the Parties Regarding Federal Tax Issues. Notwithstanding anything in the Supply Agreement to the contrary, the Issuer and the City will agree to comply with any certifications made to, or procedures required by, Tax Counsel to protect the Tax-Exempt Status of the Bonds regarding the sale, delivery, purchase or receipt of gas pursuant to the terms of the Supply Agreement, the application of any Proceeds Subject to Remediation or any other proceeds in connection with the gas, and any other matters affecting the Tax-Exempt Status of the Bonds.

* Preliminary; subject to change.

Special Obligations of Issuer. Notwithstanding anything to the contrary contained in the Supply Agreement: (a) the obligation of the Issuer to deliver gas under the Supply Agreement at any Delivery Point on any day is limited to the delivery of gas which the Issuer receives under the Prepaid Gas Agreement at such Delivery Point on such day; (b) the obligation of the Issuer to pay any amount under the Supply Agreement or to give credits against amounts due from the City under the Supply Agreement is limited to amounts the Issuer receives under the Prepaid Gas Agreement or otherwise available to the Issuer in connection with the transaction for which such payment or credit relates and which are on deposit in the Operating Fund; (c) any imbalance, transportation, tax, indemnification and other miscellaneous charges for which the Issuer is responsible under the Prepaid Gas Agreement will be considered imbalance, transportation, tax, indemnification and other charges incurred by the Issuer under the Supply Agreement; and (d) any event of Force Majeure affecting the delivery of gas by the Seller under the Prepaid Gas Agreement will be considered an event of Force Majeure affecting the Issuer with respect to the delivery of gas under the Supply Agreement.

The Commodity Swaps

The Issuer Commodity Swap. Although the Issuer will acquire scheduled volumes of gas each month pursuant to the Prepaid Gas Agreement, the price at which such gas will be sold to the City pursuant to the Supply Agreement will vary based on the Applicable Index Price. In order to hedge against changes in the purchase price payable to it for such gas, the Issuer will enter into the Issuer Commodity Swap with the Commodity Swap Counterparty. The Issuer Commodity Swap will have the same term as the term of the Prepaid Gas Agreement. Under each of the respective Issuer Commodity Swaps, [on the 25th day] of each month the Issuer will pay a price equal to the prior month Index Price and Alternate Index Price, as the case may be, and will receive a fixed price, for notional quantities of gas equal to the quantities scheduled to be delivered to the Issuer under the Prepaid Gas Agreement in such prior month.

[The monthly floating and fixed payments that are to be made by the Issuer and the Commodity Swap Counterparty under the Issuer Commodity Swap will be netted pursuant to the terms of the Issuer Commodity Swap. Net payments required to be made by the Commodity Swap Counterparty under the Issuer Commodity Swap (“*Commodity Swap Receipts*”) are Revenues of the Issuer and are required to be deposited to the Revenue Fund under the Indenture.] Pursuant to the Indenture, net payments required to be made by the Issuer under the Issuer Commodity Swap (“*Commodity Swap Payments*”) are payable from Revenues on deposit in the Commodity Swap Payment Fund. See “TERMS OF THE BONDS—Revenues and Flow of Funds.”

The Indenture requires that the Commodity Swap Counterparty be rated at least “A2,” “A,” “A” by Moody’s, S&P and Fitch, respectively. In the event that the Commodity Swap Counterparty is assigned one rating that is below “A-1,” “A+,” “A+” by Moody’s, S&P, or Fitch, respectively, the terms of the Issuer Commodity Swap require the Commodity Swap Counterparty to post collateral in the amount of the fixed swap rate times the monthly volume of gas that is the subject of the Issuer Commodity Swap for the most recent month, the current month and the next month. Such collateral will cover the maximum exposure to a default by the Commodity Swap Counterparty for a period of three consecutive months.

Pursuant to the terms of the Issuer Commodity Swap, a default by the Commodity Swap Counterparty or a termination event under which the Commodity Swap Counterparty is the sole affected party will result in (a) an assignment of the Issuer Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days, or if such assignment is not achieved in the specified time; (b) a termination of the Issuer Commodity Swap and the automatic termination of the Prepaid Gas Agreement.

Should the Commodity Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Seller are obligated to use their best efforts to assign the Issuer Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made, the Issuer Commodity Swap will terminate and an automatic termination of the Prepaid Gas Agreement will occur.

The Seller Commodity Swap. Concurrently with the Issuer's execution and delivery of the Issuer Commodity Swap, the Seller will enter into the Seller Swap Agreement with the Commodity Swap Counterparty. The Seller Commodity Swap will have the same term as the term of the Prepaid Gas Agreement. Under the Seller Commodity Swap the Seller will pay a fixed price and receive the same floating price for the same notional amounts set forth in the Issuer Commodity Swap. The Seller's payment obligations under the Seller Commodity Swap will be guaranteed by the Guarantor. Under each of the respective Seller Commodity Swaps, [on the 25th day] of each month the Seller will pay fixed price and will receive a price equal to the prior month Index Price and Alternate Index Price, as the case may be, for notional quantities of gas equal to the quantities scheduled to be delivered to the Issuer under the Prepaid Gas Agreement in such prior month.

The Commodity Swap Counterparty. Set forth below is certain publicly available information with respect to the Commodity Swap Counterparty. No representation is made by Issuer or the City as to the accuracy or completeness of the information. The Commodity Swap Counterparty has not guaranteed, nor is it responsible for payment of the Bonds.

BNPP, headquartered in Paris, France, is the second largest banking group in France and among the top 10 largest banking groups in the world. As of December 31, 2006, BNPP had consolidated total assets of approximately \$1.90 trillion and consolidated total equity of \$72.35 billion (based on a December 31, 2006 exchange rate of €1.00 = \$1.32). BNPP offers a broad range of corporate and investment banking, retail and private banking and asset management products and services, is active in more than 85 countries and has more than 138,000 employees, 15,100 of whom are based in North America. BNPP is currently rated "Aa1" (Stable Outlook) by Moody's, "AA+" (Stable Outlook) by Standard & Poor's, and "AA" (Stable Outlook) by Fitch.

The Commodity Derivatives group has 20 years of experience in offering cash settled swaps, forwards, futures and options linked to commodities and related products, including natural gas, oil and base and precious metals. Within Commodity Derivatives, the Commodity-Indexed Transactions group ("*CIT*") offers many of the cash settled derivatives including transacting over-the-counter commodity derivatives as principal on underlying commodities such as crude oil and oil products, natural gas, base and precious metals and, in Europe only, power, coal, freight and emissions. CIT works out of centers located in New York, Houston, London, Paris, Singapore, Tokyo and Sydney.

As part of Commodity Derivatives, BNPP engages in commodity brokerage services in the United States through BNP Paribas Commodity Futures, Inc. ("*CFP*"), a Delaware corporation incorporated in 1985 with its principal place of business in New York City, which was organized to provide clearing and execution services to customers in connection with listed commodity futures and options. Commodity brokerage services in Europe, Asia and Africa, including margin finance services, are conducted primarily through a U.K. affiliate, BNP Paribas Commodity Futures Limited ("*CFL*"). CFI and CFL hold memberships in many of the world's largest commodity exchanges, including the New York Mercantile Exchange, the New York Board of Trade, the Intercontinental Exchange, the London International Financial Futures Exchange and the London Metals Exchange. CFI is a futures commission merchant regulated by the Commodity Futures Trading Commission and is a member of the National Futures Association. CFL is regulated by the U.K. Financial Services Authority.

The information above regarding the Commodity Swap Counterparty relates to and has been obtained from the Commodity Swap Counterparty. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Commodity Swap Counterparty since the date hereof, or that the information contained or referred to in this subsection of this Official Statement is correct as of any time subsequent to its date.

The Interest Rate Swaps

In connection with the issuance of the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds, the Issuer will enter into the respective Interest Rate Swaps with the Interest Rate Swap Counterparty in order to hedge against changes in the Issuer's interest expense associated with the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds and achieve net synthetic fixed rate obligations. Under the Series 2007B Interest Rate Swap, for the term of the Series 2007B Bonds, the Issuer will agree to make quarterly regularly scheduled payments (February 15, May 15, August 15 and November 15) to the Series 2007B Interest Rate Swap Counterparty based upon fixed rates of interest (___% with respect to the Series 2007B Bonds maturing on November 15, 20___, ___% with respect to the Series 2007B Bonds maturing on November 15, 20__ and ___% with respect to the Series 2007B Bonds maturing on November 15, 20__) on notional amounts equal to the aggregate principal amount of each maturity of the Series 2007B Bonds. The Series 2007B Interest Rate Swap Counterparty will agree to make quarterly floating rate payments (February 15, May 15, August 15 and November 15) to the Issuer based upon the same rates of interest on the Series 2007B Bonds on notional amounts equal to the aggregate principal amount of the Series 2007B Bonds.

Under the Series 2007C Interest Rate Swap, for the term of the Series 2007C Bonds, the Issuer will agree to make quarterly regularly scheduled payments (February 15, May 15, August 15 and November 15) to the Series 2007C Interest Rate Swap Counterparty based upon fixed rates of interest (___% with respect to the Series 2007C Bonds maturing on November 15, 20___, ___% with respect to the Series 2007C Bonds maturing on November 15, 20__ and ___% with respect to the Series 2007C Bonds maturing on November 15, 20__) on notional amounts equal to the aggregate principal amount of each maturity of the Series 2007C Bonds. The Series 2007C Interest Rate Swap Counterparty will agree to make quarterly floating rate payments (February 15, May 15, August 15 and November 15) to the Issuer based upon the same rates of interest on the Series 2007C Bonds on notional amounts equal to the aggregate principal amount of the Series 2007C Bonds.

Under the Series 2007D Interest Rate Swap, for the term of the Series 2007D Bonds, the Issuer will agree to make regularly scheduled payments on the 15th day of each month to the Series 2007D Interest Rate Swap Counterparty based upon fixed rates of interest (___% with respect to the Series 2007D Bonds maturing on November 15, 20___, ___% with respect to the Series 2007D Bonds maturing on November 15, 20__ and ___% with respect to the Series 2007D Bonds maturing on November 15, 20__) on notional amounts equal to the aggregate principal amount of each maturity of the Series 2007D Bonds. The Series 2007D Interest Rate Swap Counterparty will agree to make payments on the 15th day of each month to the Issuer based upon the same rates of interest on the Series 2007D Bonds on notional amounts equal to the aggregate principal amount of the Series 2007D Bonds.

The floating and fixed payments that are to be made by the Issuer and the Interest Rate Swap Counterparty under the Interest Rate Swaps will be netted pursuant to the terms of the Interest Rate Swaps. Net payments required to be made by the Interest Rate Swap Counterparty under the Interest Rate Swaps are Revenues of the Issuer and are required to be deposited to the Debt Service Fund under the Indenture. Pursuant to the Indenture, net payments required to be made by the Issuer under the Interest Rate Swaps are payable from Revenues on deposit in the Debt Service Fund. See "TERMS OF THE BONDS—Revenues and Flow of Funds." The Issuer's obligations under the Interest Rate Swaps will be

secured under the Indenture on a parity basis with the Bonds. The Interest Rate Swaps do not alter the Issuer's obligation to pay the principal of and interest on the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds. The holders of the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds have no preferential rights to net amounts received under the respective Interest Rate Swaps or any claims against the Interest Rate Swap Counterparty. Rather, all such receipts are to be deposited to and applied as part of the Debt Service Fund under the Indenture.

The Guarantor will guaranty the payment obligations of the Interest Rate Swap Counterparty under the Interest Rate Swaps pursuant to the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Series 2007D Interest Rate Swap Guarantee. The Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Series 2007D Interest Rate Swap Guarantee guarantee only the payment obligations of the Interest Rate Swap Counterparty under the respective Interest Rate Swaps and do not constitute a guarantee of the Issuer's obligations with respect to the Bonds. The Issuer has credit risk on the Interest Rate Swaps to the extent that the Interest Rate Swap Counterparty and the Guarantor fail to make payments due under the Interest Rate Swaps.

The Issuer and the Interest Rate Swap Counterparty may each terminate the Interest Rate Swaps if the other party commits certain events of default or misrepresentations, or consolidates or merges with or transfers substantially all of its assets to another entity which has not assumed such Interest Rate Swaps or whose creditworthiness is materially weaker, or may not legally perform its obligations under such Interest Rate Swaps. In addition, the Interest Rate Swaps may be terminated by either party (a) if the principal of the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007C Bonds, as applicable, is declared to be immediately due and payable by the Trustee pursuant to the Indenture; or (b) upon the optional redemption by the Issuer of all of the outstanding Series 2007B Bonds, Series 2007C Bonds or the Series 2007D Bonds, as applicable, provided, however, no optional redemption is permitted under the Indenture unless the Issuer provides for the payment of any amount owed to the Interest Rate Swap Counterparty at the time of termination of the applicable Interest Rate Swap. Neither the Issuer nor the Interest Rate Swap Counterparty may terminate the Interest Rate Swaps as a result of any downgrade in the credit rating of the Guarantor.

Upon termination of the Interest Rate Swaps, the applicable party will be obligated to pay its accrued net payment obligations under such Interest Rate Swaps, but neither party will owe the other party a market-based or other termination payment unless the Interest Rate Swaps are terminated as a result of an optional redemption of the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds, as applicable. The respective notional amounts of the Interest Rate Swaps will be reduced upon a mandatory redemption in part of the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds, as applicable, in connection with a remediation (see "TERMS OF THE BONDS—Redemption—Mandatory Redemption—Mandatory Redemption for Remediation"), upon the mandatory sinking fund redemption of the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds (see "TERMS OF THE BONDS—Redemption—Mandatory Redemption—Mandatory Sinking Fund Redemption"), and upon an optional redemption in part of the Series 2007B Bonds, the Series 2007C Bonds and/or the Series 2007D Bonds (see "TERMS OF THE BONDS—Redemption—Optional Redemption").

The Issuer's obligations under the Interest Rate Swaps will be secured under the Indenture on a parity basis with the Bonds. Any amounts received by the Issuer under the Interest Rate Swaps will be deposited with the Trustee for credit to the Debt Service Fund. The Interest Rate Swap Counterparty's obligations under the Interest Rate Swap are unsecured, except for the guarantee of the Guarantor under the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Series 2007D Interest Rate Swap Guarantee.

The Funding Agreement

Set forth below is a summary of certain provisions of the Funding Agreement. This summary does not purport to be a complete description of the terms and conditions of the Funding Agreement, and reference is made to the entire Funding Agreement, copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

The Funding Agreement provides that the Seller is obligated to make advances to the Issuer to cure Covered Termination Deficiencies and Covered Swap Deficiencies.

In the event a Covered Termination Deficiency exists, the Trustee will provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Termination Advance to the Trustee, not later than 11:00 a.m. (Central time) on the day which is one day after the Seller's receipt of such notice, or if such day is not a Business Day, the next succeeding Business Day. The amount of such Mandatory Termination Advance will be the amount necessary so that the amount on deposit in the Termination Fund on the Early Redemption Date will be sufficient to pay the Redemption Price and accrued interest on the Bonds to such Early Redemption Date of the then outstanding Bonds [and any termination payment that may be due to the Qualified Provider]. See "TERMS OF THE BONDS—Revenues and Flow of Funds—Termination Fund."

In the event a Covered Swap Deficiency exists, the Trustee will provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Swap Advance to the Trustee, not later than 11:00 a.m. (Central time) on the day which is 1 day after the Seller's receipt of such notice, or if such day is not a Business Day, the next succeeding Business Day. The amount of such Mandatory Swap Advance is the amount of the regularly scheduled swap payment that would have been made by the Commodity Swap Counterparty under the Issuer Commodity Swap had a termination event with respect to the Commodity Swap Counterparty or an event of default with respect to the Issuer not occurred.

The Funding Agreement also provides the Seller with the right to make one or more Optional Advances to cure any Covered General Deficiency. As provided in the Indenture, the Trustee will give notice to the Seller within 2 Business Days upon becoming aware that a Covered General Deficiency exists and specifying the amount necessary to cure such Covered General Deficiency. Upon receipt of such notice the Seller may, in its sole discretion, but is not obligated to, make an Optional Advance. The Seller will notify the Trustee and the Issuer of its decision whether or not to make an Optional Advance on the Business Day next following the day of receipt of such notice from the Trustee or the Issuer. If the Seller agrees to make an Optional Advance, the Seller will make such Optional Advance to the Trustee by 11:00 a.m. (Central time) on the second Business Day next following the day of receipt of such notice from the Trustee or the Issuer. The amount of each Optional Advance will be the amount necessary to cure the Covered General Deficiency so that after the deposit of such Optional Advance in the applicable fund or funds under the Indenture the amount on deposit in the fund or funds specified in the request for an Optional Advance will be the amount then required to be on deposit in such fund or funds pursuant to the Indenture.

Amounts advanced pursuant to the Funding Agreement are to be deposited in accordance with the provisions of the Indenture relating to such advances. See "TERMS OF THE BONDS—Revenues and Flow of Funds." The term of the Funding Agreement is the same as that of the Indenture. The Seller's payment obligations under the Funding Agreement will be guaranteed pursuant to the Funding Guarantee. See "THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

[Agreement with Coral]

[To come]

**THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY,
THE GUARANTOR, THE SELLER GUARANTEE
THE INTEREST RATE SWAP GUARANTEE AND
THE FUNDING GUARANTEE**

The Seller, the Interest Rate Swap Counterparty and Guarantor

Set forth below is certain publicly available information with respect to the Seller, the Interest Rate Swap Counterparty and the Guarantor. The obligations of the Seller are limited to those set forth in the Prepaid Gas Agreement and the Funding Agreement; the obligations of the Interest Rate Swap Counterparty are limited to those set forth in the Interest Rate Swaps; and the obligations of the Guarantor are limited to those set forth in the Seller Guarantee, the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Funding Guarantee. Neither the Seller, the Interest Rate Swap Counterparty nor the Guarantor has guaranteed, nor is either responsible for the payment of the Bonds.

The Seller, Merrill Lynch Commodities, Inc., is an indirect subsidiary of the Guarantor, Merrill Lynch & Co., Inc. The Interest Rate Swap Counterparty, Merrill Lynch Capital Services, Inc., is a direct subsidiary of the Guarantor. The payment obligations of the Seller under the Prepaid Gas Agreement, certain obligations of the Seller under the Funding Agreement and the payment obligations of the Interest Rate Swap Counterparty under the Interest Rate Swaps are guaranteed by the Guarantor. The Guarantor is a diversified financial services holding company, which is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "*SEC*"). For further information concerning the Seller, the Interest Rate Swap Counterparty and the Guarantor, see the consolidated financial statements of the Guarantor and its subsidiaries included in the Annual Report on Form 10-K of Merrill Lynch & Co., Inc. for the fiscal year ended December 30, 2006, subsequently filed quarterly reports, and any other documents which are publicly available, including any financial statements of the Guarantor and its subsidiaries, that are included therein or attached as exhibits thereto, filed by Merrill Lynch & Co., Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the most recent Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds. Merrill Lynch & Co., Inc. files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-07182. Copies of Merrill Lynch & Co., Inc.'s SEC filings (including Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2006 and subsequently filed quarterly reports) are available (a) over the Internet at the SEC's website at <http://www.sec.gov>, and (b) at the Public Reference Room of the SEC at 100 F Street, NE, Room 1580, Washington, DC 20549, and at the SEC's regional offices at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 2511 and 233 Broadway, New York, New York 10279.

The Seller Guarantee

Pursuant to the Seller Guarantee, the Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any and all amounts payable by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Guarantor. The Guarantor, pursuant to the Seller Guarantee, covenants that the Seller Guarantee will not be discharged except by complete payment of the amounts payable under the Prepaid Gas Agreement.

The Interest Rate Swap Guarantee

Pursuant to the Interest Rate Swap Guarantee, the Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any and all amounts payable by the Interest Rate Swap Counterparty, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Guarantor. The Guarantor, pursuant to the Interest Rate Swap Guarantee, covenants that the Interest Rate Swap Guarantee will not be discharged except by complete payment of the amounts payable under the Interest Rate Swaps.

The Funding Guarantee

Pursuant to the Funding Guarantee, the Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any advance to be made pursuant to the Funding Agreement to the Issuer by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Guarantor. The Guarantor, pursuant to the Funding Guarantee, covenants that the Funding Guarantee will not be discharged except by complete payment of the amounts payable under the Funding Agreement.

THE CUSTOMER SURETY BOND AND THE SURETY PROVIDER

Description of the Customer Surety Bond

A portion of the City's obligation to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed by the Surety Provider pursuant to the Customer Surety Bond to be issued by the Surety Provider in favor of the Issuer and the Trustee, as assignee of the Issuer.

The aggregate amount payable by the Surety Provider under the Customer Surety Bond will be subject to a coverage limitation contained in the Customer Surety Bond, which maximum amount will be \$97,366,760*. In general, the Customer Surety Policy will cover the City's obligations to pay for 90 days of Gas Supply delivered or deemed delivered pursuant to the Supply Agreement at maximum volumes, not to exceed 2,434,169* MMBtus, at a maximum price of \$40/MMBtu. The Customer Surety Bond will guarantee only the payments required to be made by the City under the Supply Agreement for the Gas Supply, and will not guarantee any other payment obligations of the City under the Supply Agreement, including, but not limited to, costs, expenses, (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, that may be payable by the City to the Issuer under the Supply Agreement. The Customer Surety Bond will not constitute a guarantee of the Issuer's obligations with respect to the Bonds.

Description of the Surety Provider

The following information has been furnished by the Surety Provider for use in this Official Statement. Neither the Issuer, the City nor the Underwriter makes any representation as to the accuracy or the completeness of such information or as to the absence of material adverse changes in such information.

The Surety Provider accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Surety Provider and its affiliates set forth under

* Preliminary; subject to change.

the heading “—Description of the Surety Provider.” In addition, the Surety Provider makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General. The Surety Provider is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Surety Provider is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Surety Provider is an indirect wholly owned subsidiary of Security Capital Assurance Ltd (“SCA”), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd currently beneficially owns approximately 47.5% of SCA’s outstanding shares.

The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). SCA is not obligated to pay the debts of or claims against the Surety Provider.

Financial Strength and Financial Enhancement Ratings of XLCA. The Surety Provider’s insurance financial strength is rated “Aaa” by Moody’s and “AAA” by S&P and Fitch. In addition, the Surety Provider has obtained a financial enhancement rating of “AAA” from S&P. These ratings reflect Moody’s, S&P’s and Fitch’s current assessment of the Surety Provider’s creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. (“XLFA”) described under “—Reinsurance” below.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody’s, S&P or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Surety Provider does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Reinsurance. The Surety Provider has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Surety Provider. Pursuant to this reinsurance agreement, the Surety Provider expects to cede up to 75% of its business to XLFA. The Surety Provider may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Surety Provider as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Surety Provider’s obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Customer Surety Bond.

Based on the audited financial statements of XLFA, as of December 31, 2006, XLFA had total assets, liabilities, redeemable preferred shares and shareholders’ equity of \$2,007,395,000, \$874,028,000, \$54,016,000 and \$1,079,351,000, respectively, determined in accordance with generally accepted accounting principles in the United States (“US GAAP”). XLFA’s insurance financial strength is rated “Aaa” by Moody’s and “AAA” by S&P and Fitch. In addition, XLFA has obtained a financial enhancement rating of “AAA” from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, S&P or Fitch.

Notwithstanding the capital support provided to the Surety Provider described in this section, the Bondholders will have direct recourse against the Surety Provider only, and XLFA will not be directly liable to the Bondholders.

Capitalization of the Surety Provider. Based on the audited financial statements of XLCA, as of December 31, 2006, XLCA had total assets, liabilities, and shareholder's equity of \$1,224,735,000, \$974,230,000, and \$250,505,000, respectively, determined in accordance with U.S. GAAP.

Based on the unaudited statutory financial statements for XLCA as of December 31, 2006 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$429,073,000, total liabilities of \$222,060,000, total capital and surplus of \$207,013,000 and total contingency reserves of \$20,876,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("**SAP**").

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$328,231,000, total liabilities of \$139,392,000, total capital and surplus of \$188,839,000 and total contingency reserves of \$13,031,000 determined in accordance with SAP.

Incorporation by Reference of Financials. For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the SEC by SCA and may be reviewed at the EDGAR website maintained by the SEC. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by SCA pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in the reports filed with the SEC by SCA is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Surety Provider. The Surety Provider is regulated by the Superintendent of Insurance of the State of New York. In addition, the Surety Provider is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Surety Provider is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each Surety Provider to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Surety Provider is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the

payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE SURETY PROVIDER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Surety Provider are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

THE ISSUER

General

The Issuer is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated June 26, 1997, as amended (the "*Joint Powers Agreement*") by and between the City and the Redevelopment Agency of the City of Long Beach (the "*Agency*"). The Joint Powers Agreement was entered into pursuant to the provisions of the California Government Code. The Issuer is a separate entity constituting a public instrumentality of the State and was formed for the public purpose of providing financing and refinancing of activities of the Agency, the City or other local agencies through, the acquisition or leasing by the Issuer of such public capital improvements and/or the purchase by the Issuer of local obligations within the meaning of applicable laws. The Issuer is governed by a board of directors comprised of three members. The Issuer is administered by City staff.

The Issuer has issued and there are currently outstanding obligations for other projects in the City. The revenues and property which secure these projects are not available as security for the Bonds. In addition, the Revenues securing the Bonds are not security for or available for payment of such other obligations of the Issuer. The Issuer is authorized to issue additional types of obligations and may in the future issue additional obligations payable from and secured by other revenues and property that do not secure the Bonds.

The Issuer's Limited Liability

The Issuer will enter into the Supply Agreement with the City solely to facilitate the financing of the purchase of the Gas Supply. Under the Indenture, the Issuer will assign its rights and interests under the Supply Agreement, the Prepaid Gas Agreement, the Issuer Commodity Swap, the Interest Rate Swaps, the Funding Agreement, the Seller Guarantee, the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Funding Guarantee to the Trustee for the benefit of the owners of the Bonds. The owners of the Bonds will have no right to look to the Issuer, or any of its non-pledged assets, for any payment due on the Bonds. Furthermore, none of the Supply Agreement, the Prepaid Gas Agreement, the Issuer Commodity Swap, the Interest Rate Swaps, the Funding Agreement, the Seller Guarantee, the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee, the Funding Guarantee and the Indenture creates a pecuniary liability on the part of any directors or officers of the Issuer.

Restriction on Additional Obligations

The Issuer has covenanted in the Indenture that it will not issue any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Issuer

Commodity Swap and the Interest Rate Swaps, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other of its assets. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate other than the lien and charge created by the Indenture to secure the Bonds, the lien and charge securing such Refunding Obligations and any lien to secure the Issuer Commodity Swap and the Interest Rate Swaps.

CERTAIN BONDHOLDERS' RISKS

Investment in the Bonds is subject to certain risks. Particular attention should be given to the risk factors described under this caption. Any one of these factors, among others, could affect the payment of principal and interest due on the Bonds and the market price of the Bonds. The extent of any such effect cannot be determined at this time. For additional information and investment considerations, see "APPENDIX A—THE LONG BEACH GAS AND OIL DEPARTMENT AND THE GAS ENTERPRISE."

Special Obligations of the Issuer

The Bonds will be special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the provisions of the Indenture permitting the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Accordingly, no financial or operating information with respect to the Issuer is included in this Official Statement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Trust Estate" and "THE ISSUER."

Early Redemption of Bonds

Upon the occurrence of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to deposit the Termination Amount with the Trustee, for the account of the Issuer, which will be used, together with other funds, to redeem outstanding Bonds prior to their scheduled maturity as described under the caption "TERMS OF THE BONDS—Redemption—Mandatory Redemption."

The Bonds are also subject to mandatory redemption prior to maturity if the Trustee receives notice to the effect that redemption of all or a portion of the Bonds is necessary to preserve the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. The Issuer, the Seller and the City have made certain covenants and by contract terms are bound to take certain actions to minimize the likelihood of such a mandatory redemption. See "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement" and "—The Supply Agreement."

Gas Enterprise Revenues; Subordinate Obligation

The primary and expected source of Revenues pledged under the Indenture are the payments to be received by the Issuer from the City under the Supply Agreement. The obligations of the City under the Supply Agreement will be treated as operating expenses of the Gas Enterprise and will be limited obligations payable from Gas Enterprise Revenues on a subordinate basis to the payment of the 2005 Gas Utility Bonds, the Commercial Paper Notes, the repayment obligations under the CP Reimbursement Agreement and any additional First Lien Obligations, Second Lien Obligations or Subordinate Obligations issued, from time to time, in the future by the City. In the event of a shortfall in Gas

Enterprise Revenues, the General Fund of the City is not liable for payment of the obligations of the City under the Supply Agreement and the City is not obligated to appropriate funds for the payment of the obligations of the City under the Supply Agreement. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bond or the obligations of the City under the Supply Agreement. No representation or assurance can be given that Gas Enterprise Revenues will be generated in amounts sufficient to pay the obligations of the City under the Supply Agreement when due. "APPENDIX A—THE LONG BEACH GAS AND OIL DEPARTMENT AND THE GAS ENTERPRISE."

Limited Drawings Under the Customer Surety Bond

Although certain payment obligations of the City under the Supply Agreement are insured by the Surety Provider pursuant to the Customer Surety Bond, no assurance can be given that in the event the City fails to make any such payment, the Contract Price will be such that the Surety Bond Limit will not be exceeded. Such circumstances could result in an early termination of the Prepaid Gas Agreement and, in turn, the early redemption of the Bonds. See "THE CUSTOMER SURETY BOND AND THE SURETY PROVIDER." See also "TERMS OF THE BONDS—Redemption—Mandatory Redemption" and "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement." Any delay in payment under the Customer Surety Bond could cause a delay or default in payments by the Issuer of principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information with respect to the Gas Enterprise, the Gas Enterprise Fund and the City and with respect to the Surety Provider contained in this Official Statement, including the Appendices, in assessing the capacity of the City to make the payments it is required to make under the Supply Agreement and the Surety Provider's capacity to make the payments required under the Customer Surety Bond. See "APPENDIX A—THE LONG BEACH GAS AND OIL DEPARTMENT AND THE GAS ENTERPRISE."

Decline in City's Natural Gas Requirements

The gas that the City will be obligated to purchase in any month ranges from [36,107] to [15,485] MMBtu/day, or approximately 80-90% of the City's projected annual natural gas requirement. Although the City is required to purchase and pay for all gas delivered or deemed delivered to it pursuant to the Supply Agreement, it is possible that the City's gas purchase requirements under the Supply Agreement in any month will exceed its natural gas requirements for that month. Various factors may affect the City's gas purchase requirements, including, among other factors: retention of existing customers by the City; local, regional and national economic conditions; damage to the Gas Enterprise as a result of earthquakes or other natural disasters; the market price of natural gas and the market price of alternate forms of energy; fuel conservation measures; the availability of alternate energy sources; climatic conditions; government regulation and deregulation of the energy industries; and technological advances in fuel economy and energy generation devices. If the City cannot use gas delivered under the Supply Agreement on any day, the City will resell the gas, either directly or in certain circumstances through remarketing by the Seller, and will bear all risk (except as otherwise provided by the Seller Guarantee, see "—Financial Position of Seller and Guarantor" below) that the price received for its sale of surplus gas delivered under the Supply Agreement will be below the Contract Price.

Ability to Meet Rate Covenant Under the Supply Agreement

Pursuant to the Supply Agreement, the City will covenant and agree to establish, fix, prescribe, maintain, and collect rates, fees, rentals and charges in connection with the Gas Enterprise and for services rendered in connection therewith so as to provide Gas Enterprise Revenues sufficient, together with all other available revenues, to enable the City to pay to the Issuer all amounts payable under the Supply Agreement and to pay all other amounts payable from the Gas Enterprise Revenues, and to

maintain any required reserves. Increasing the schedule of rates, fees and charges for the use of and for the services furnished or to be furnished by the Gas Enterprise would be subject to contractual, statutory and regulatory restrictions. Such rate increases could increase the likelihood of nonpayment and/or drive demand down.

Risk of Earthquake

Generally, within the State, some level of seismic activity occurs on a regular basis. During the past 150 years, the Southern California area has experienced several major and numerous minor earthquakes. The City experienced a major earthquake in 1933. The most recent major earthquake in the Southern California area was the Northridge earthquake, which occurred on January 17, 1994. The Northridge earthquake, with an epicenter approximately 55 miles north of the City, measured 6.5 on the Richter scale.

The 1933 earthquake caused extensive damage to the City's gas mains. If an earthquake were to substantially damage or destroy all or a portion of the Gas Enterprise there could be an interruption in the service provided by the Gas Enterprise resulting in a substantial decline in the gas requirements of the City. If the City cannot use gas delivered under the Supply Agreement on any day, the City will resell the gas, either directly or in certain circumstances through remarketing by the Seller, and will bear all risk (except as otherwise provided by the Seller Guarantee, see "—Financial Position of Seller and Guarantor" below) that the price received for its sale of surplus gas delivered under the Supply Agreement will be below the Contract Price.

Financial Position of Seller, the Interest Rate Swap Counterparty and Guarantor

The Seller or the Guarantor will be obligated to make certain payments to the Trustee, for the account of the Issuer, upon a failure of the Seller to deliver or the Issuer to take gas under the Prepaid Gas Agreement, whether or not such failure is caused by Force Majeure. In addition, upon termination of the Supply Agreement due to a default by the City, the Seller is obligated under the Prepaid Gas Agreement to remarket the Gas Supply and remit all remarketing proceeds to the Trustee. The ability of the Issuer to pay principal of and interest on the Bonds when due will depend upon the timely payment by the Seller or the Guarantor of such Gas Payments including, in the event of the termination of the Supply Agreement, remarketing proceeds, to the Trustee.

In the event of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to make a termination payment, and all of the outstanding Bonds will be subject to mandatory redemption prior to maturity. In addition, in the event a Covered Termination Deficiency exists, the Seller or the Guarantor is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay the Redemption Price of the Bonds (and accrued interest to the Early Redemption Date, defined herein, if any) will depend upon the payment by the Seller or the Guarantor of the Termination Amount and the Mandatory Termination Advance, if any, to the Trustee.

In the event there are insufficient funds in the Debt Service Fund and such failure is due to a Covered Swap Deficiency, the Seller, or the Guarantor, is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay principal and interest when due will depend upon the timely payment by the Seller, or the Guarantor, of the Mandatory Swap Advance to the Trustee.

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely receipt of payments made under the Interest Rate Swaps by the Interest Rate Swap Counterparty. Pursuant to the Series 2007B Interest Rate Swap Guarantee and the Series 2007C

Interest Rate Swap Guarantee, the Guarantor will guarantee the obligations of the Interest Rate Swap Counterparty under the Interest Rate Swaps.

No assurance can be given that the future financial position of the Seller, the Interest Rate Swap Counterparty or the Guarantor will enable either of each to make such payments in a timely manner. Any delay in payment by the Seller, the Interest Rate Swap Counterparty or the Guarantor could cause a delay or default in payments of the principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE, THE INTEREST RATE SWAP GUARANTEE AND THE FUNDING GUARANTEE" in this Official Statement in assessing the capacity of the Seller, the Interest Rate Swap Counterparty and the Guarantor to make the payments required to be made under the Prepaid Gas Agreement, the Interest Rate Swaps, the Funding Agreement, the Seller Guarantee, the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Funding Guarantee.

Financial Position of Commodity Swap Counterparty

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely receipt of payments made under the Issuer Commodity Swap by the Commodity Swap Counterparty. The Indenture requires that the Commodity Swap Counterparty be rated at least "A2," "A," "A" by Moody's, S&P and Fitch, respectively. In the event that the Commodity Swap Counterparty is assigned one rating that is below "A1," "A+," "A+" by Moody's, S&P, or Fitch, respectively, the Commodity Swap Counterparty is required to post collateral as described herein. No assurance can be given that the future financial position of the Commodity Swap Counterparty will enable it to post sufficient collateral or make regular swap payments in a timely manner. A default by the Commodity Swap Counterparty will result in (a) an assignment of the Issuer Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days or; (b) if such assignment does not occur within 30 days, a termination of the Issuer Commodity Swap and an automatic termination of the Prepaid Gas Agreement. If the Commodity Swap Counterparty fails to make a swap payment and has failed to post collateral as required by the Issuer Commodity Swap, there may be a shortfall in the Debt Service Fund or the Termination Fund that is not required to be covered by the Seller under the Funding Agreement. In such event, there could be a delay or default in payment by the Issuer of principal and interest due on the Bonds.

Should the Commodity Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Supplier are obligated to use their best efforts to assign the Issuer Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made to a qualified replacement counterparty, the Issuer Commodity Swap will terminate, and an automatic termination of the Prepaid Gas Agreement will occur. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE GAS SUPPLY ACQUISITION—The Commodity Swaps" in this Official Statement in assessing the capacity of the Commodity Swap Counterparty to make the payments required to be made or to post collateral as required under the Issuer Commodity Swap.

[Performance of Qualified Provider]

[The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely performance by the Qualified Provider under the Forward Purchase Agreement for the Debt Service Fund. The Indenture requires that if the Qualified Provider is no longer rated at least "Aa3," "AA-," "AA-" by Moody's, S&P, and Fitch, respectively, then the Forward Purchase Agreement will require the Qualified Provider to post collateral or make such other security arrangements as the

Issuer shall determine are appropriate for its interests. The [] Forward Purchase Agreement provides that if [] is no longer rated at least "Aa3," "AA-," "AA-" by Moody's, S&P, and Fitch, respectively, then [] is to post collateral, obtain a guarantee or assign the agreement to another Qualified Provider. The Indenture further requires that the Issuer (a) replace the Forward Purchase Agreement in the event that the rating of the Qualified Provider does not meet the minimum requirement and adequate security has not been provided, and (b) adjust the Contract Price in the Supply Agreement in the event a substitute Forward Purchase Agreement generates lower investment income. Any delay by the Issuer in fulfilling its obligation to adjust the Contract Price, if necessary, could cause a delay or default in payments of principal and interest due on the Bonds.]

Structured Financing

The Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement, the Issuer Commodity Swap, the Interest Rate Swaps [and the Forward Purchase Agreement] have been structured so that the Revenues available to the Issuer, together with the amounts on deposit in certain of the Funds held by the Trustee under the Indenture and other amounts available to the Issuer, are expected to be sufficient at all times to provide for the timely payment of the scheduled debt service requirements on the Bonds, the Issuer's payment obligations to the Commodity Swap Counterparty under the Issuer Commodity Swap, the Issuer's payment obligations to the Interest Rate Swap Counterparty under the Interest Rate Swaps and the Issuer's obligations under the Prepaid Gas Agreement. The Issuer's ability to meet its obligations on the Bonds and those agreements will depend primarily upon the performance by the Seller of its gas delivery and other obligations under the Prepaid Gas Agreement (or the Guarantor under the Seller Guarantee), timely payment by the City under the Supply Agreement (or the Surety Provider under the Customer Surety Bond), timely payment by the Commodity Swap Counterparty under the Issuer Commodity Swap, timely payment by the Interest Rate Swap Counterparty under the Interest Rate Swaps (or the Guarantor under the Interest Rate Swap Guarantee), [timely performance by the Qualified Provider under the Forward Purchase Agreement,] and the performance by the Seller of its obligations under the Funding Agreement (or the Guarantor under the Funding Guarantee).

The principal sources of the Revenues pledged to the payment of the Bonds are the amounts to be received by the Issuer from the sale of the gas to the City under the Supply Agreement, payments received by the Issuer under the Issuer Commodity Swap, payments received by the Issuer under the Interest Rate Swaps, [and the investment earnings received under the Forward Purchase Agreement.] Whether those Revenues will be sufficient to enable the Issuer to meet all of its payment obligations on the Bonds and under the Prepaid Gas Agreement and the Issuer Commodity Swap and the Interest Rate Swaps over the entire term of such agreements will depend upon various factors, including, but not limited to:

- (a) the prospects and financial and operational performance of the Seller, or the Guarantor, and the continuing ability of each to timely meet its obligations under the Prepaid Gas Agreement, as well as its obligations under the Funding Agreement, for the term of the Bonds;
- (b) performance of the City under the Supply Agreement;
- (c) the prospects and financial and operational performance of the Commodity Swap Counterparty, or any replacement Commodity Swap Counterparty, and its continuing ability to timely meet its obligations under the Issuer Commodity Swap;
- (d) the prospects and financial and operational performance of the Interest Rate Swap Counterparty, or the Guarantor, and the continuing ability of each to timely meet its obligations under the Interest Rate Swaps for the term of the Bonds; and

(e) [the ability of the Qualified Provider to meet its obligations under the Forward Purchase Agreement then in effect.]

Enforceability of Contracts

The enforceability of the rights and remedies of the Issuer under the Prepaid Gas Agreement, the Supply Agreement, the Issuer Commodity Swap, the Interest Rate Swaps, the Funding Agreement, the Seller Guarantee, the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Funding Guarantee, and the rights and remedies of the Trustee and the owners of the Bonds upon an event of default under the Indenture, may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Issuer, the Trustee and the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation or modification of their rights.

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds, or, if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Additionally, because the ratings on the Bonds are expected to be based primarily on the credit of Merrill Lynch & Co., Inc., any change in the credit worthiness or credit rating of Merrill Lynch & Co., Inc. could affect the secondary market prices for the Bonds. Secondary market prices for the Bonds could also be affected as a result in changes in the marginal federal income tax rate, general changes in interest rates and/or credit spreads and other supply and demand conditions affecting the Bonds.

The Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds are not expected to consistently trade at a price of par. There is no put or demand feature with respect to the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds, and there can be no assurance that the interest rate for the Series 2007B Bonds, the Series 2007C Bonds or the Series 2007D Bonds will be a market rate throughout their term.

Certain Factors Relating to the Investment in the Series 2007B Bonds, the Series 2007C Bonds and the Series 2007D Bonds

The interest rate on the Series 2007B Bonds will be based upon a percentage of the Three-Month LIBOR; the interest rate on the Series 2007C Bonds will be based upon the SIFMA Municipal Swap Index; and the interest rate on the Series 2007D Bonds will be based upon the CPI. Tax-exempt municipal securities bearing interest at a percentage of the Three-Month LIBOR, the SIFMA Municipal Swap Index and/or CPI are relatively new investment instruments. There can be no assurance that a secondary market for the Series 2007B Bonds, the Series 2007C Bonds and/or the Series 2007D Bonds

will develop or, if a secondary market does develop, that it will continue or that it will provide owners of the Series 2007B Bonds, the Series 2007C Bonds and/or the Series 2007D Bonds with liquidity for their investment. In addition, as a new product, Series 2007B Bonds, the Series 2007C Bonds and/or the Series 2007D Bonds may not be widely traded or as well understood as fixed rate securities, other floating rate securities or other types of index-linked securities. Lesser liquidity and fewer market participants may result in larger spreads between bid and ask prices for the Series 2007B Bonds, the Series 2007C Bonds and/or the Series 2007D Bonds than the bid-asked spreads for fixed rate securities, other floating rate securities or other types of index-linked securities of the same maturities as the Series 2007B Bonds, the Series 2007C Bonds and/or the Series 2007D Bonds. Larger bid-asked spreads normally result in higher transaction costs and/or lower overall returns. The liquidity of the Series 2007B Bonds, the Series 2007C Bonds and/or the Series 2007D Bonds may be enhanced over time if other issuers of tax-exempt bonds issue similar securities, or if more entities participate in the market for tax-exempt municipal securities bearing interest at a percentage of the Three-Month LIBOR or the SIFMA Municipal Swap Index (similar to the Series 2007B Bonds and the Series 2007C Bonds) or inflation-protection securities (similar to the Series 2007D Bonds), generally, but there can be no assurance that either or both of these phenomena will occur.

Certain Factors Relating to the Investment in the Series 2007D Bonds

See “APPENDIX E—THE SERIES 2007D BONDS AND THE CPI RATE—Risk Factors Relating to the Series 2007D Bonds” for additional risks specifically associated with investing in the Series 2007D Bonds.

Forward-Looking Statements

This Official Statement contains statements relating to future results that are “forward looking-statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect,” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. See “INTRODUCTION—Forward-Looking Statements.”

ABSENCE OF LITIGATION

There is no litigation of any nature now pending or, to the knowledge of the Issuer or the City, threatened against or affecting the Issuer or the City, as applicable, (a) seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or any proceedings of the Issuer or the City, as applicable, taken with respect to the issuance or sale thereof, (b) in any way questioning or in any manner affecting the validity or enforceability of the Bonds, the Indenture or the pledge of the Trust Estate thereunder, the Prepaid Gas Agreement, the Supply Agreement, the Issuer Commodity Swaps, the Interest Rate Swaps or the Funding Agreement, or (c) which may adversely affect the acquisition of the Gas Supply by the Issuer or the City. The Underwriter will receive certifications from representatives of the Issuer and the City at the closing of the sale of the Bonds to the effect that no such litigation is pending or, to their knowledge, threatened.

APPROVAL OF LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer. A complete copy of the proposed form of the opinion of Bond Counsel is contained in Appendix H to this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain

legal matters will be passed upon for the Underwriter by Kutak Rock LLP, and for the Issuer and the City by the City Attorney of the City. [Other counsels to be listed.] All of the fees of Bond Counsel and Underwriter's Counsel with regard to the issuance of the Bonds are contingent upon the issuance and delivery of the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, as bond counsel to the Issuer ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix H hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity with respect to such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds, which is excluded from gross income for federal income tax purposes and State personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Obligations") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Obligations, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Obligation, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Obligations should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Issuer and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to insure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the

date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such action, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer or the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer and the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer or the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Issuer, the City or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE

The Issuer and the City will enter into the Continuing Disclosure Agreement for the benefit of the holders of the Bonds to provide certain financial information and operating data concerning the Gas

Enterprise and the Gas Enterprise Fund to each of the Nationally Recognized Municipal Securities Information Repositories (the "NRMSIRs") annually and to provide notice to the Municipal Securities Rulemaking Board or to the NRMSIRs of certain events, pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission (17 C.F.R. § 240.15c2-12) ("*Rule 15c2-12*"). The City will covenant in the Continuing Disclosure Agreement to provide certain annual financial statements and other information in the manner required by Rule 15c2-12. The Issuer has determined that no financial or operating data concerning the Issuer is material to any decision to purchase, hold or sell the Bonds and the Issuer will not provide any such information. See "APPENDIX G—FORM OF CONTINUING DISCLOSURE AGREEMENT" herein for a form of the Continuing Disclosure Agreement.

A failure by the Issuer or the City to provide any information required under the Continuing Disclosure Agreement will not constitute an Event of Default under the Indenture. Neither the Issuer nor the City has ever failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events.

FINANCIAL STATEMENTS

No financial statements for the Issuer are included herein. The audited financial statements of the Gas Enterprise Fund for the Fiscal Year ended September 30, 2006 are included as Appendix B to this Official Statement. The financial statements referred to above have been audited by KPMG LLP, Los Angeles, California, independent certified public accountants, whose report with respect thereto also appears in Appendix B to this Official Statement. The City has not requested nor did the City obtain permission from KPMG LLP to include the audited financial statements of the Gas Enterprise Fund as an appendix to this Official Statement. In addition, KPMG LLP has not performed any post-audit review of the financial condition or operations of the Gas Enterprise Fund and has not reviewed this Official Statement.

FINANCIAL ADVISOR

The Issuer and the City have retained Public Financial Management, Inc. as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is a full service financial advisor and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The fees of the Financial Advisor with regard to the issuance of the Bonds are contingent upon the issuance and delivery of the Bonds.

UNDERWRITING

The Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$_____ (which represents the aggregate principal amount of the Bonds, plus/less a net original issue premium/discount of \$_____, less an Underwriter's discount of \$_____). The bond purchase agreement pursuant to which the Bonds are being purchased by the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the bond purchase agreement. The initial public offering prices of the Bonds set forth on the inside front cover hereof may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds into unit investment trusts or money market funds at prices lower than the public offering prices stated on the cover and the inside of the cover hereof.

CERTAIN RELATIONSHIPS

The Seller, Merrill Lynch Commodities, Inc., is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Underwriter, Merrill Lynch, Pierce, Fenner & Smith Incorporated, is a wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Interest Rate Swap Counterparty, Merrill Lynch Capital Services, Inc., is a direct subsidiary of Merrill Lynch & Co., Inc. The financial obligations of the Seller and the Interest Rate Swap Counterparty are guaranteed by Merrill Lynch & Co., Inc., to the extent set forth in the Seller Guarantee, the Series 2007B Interest Rate Swap Guarantee, the Series 2007C Interest Rate Swap Guarantee and the Funding Guarantee. Neither the Seller, the Interest Rate Swap Counterparty nor Merrill Lynch & Co., Inc. has guaranteed or is responsible for the payment of the Bonds. The obligations of the Seller and, by virtue of the Seller Guarantee and the Funding Guarantee, Merrill Lynch & Co., Inc., are limited to those set forth in the Prepaid Gas Agreement and the Funding Agreement. The obligations of the Interest Rate Swap Counterparty and, by virtue of the Series 2007B Interest Rate Swap Guarantee and the Series 2007C Interest Rate Swap Guarantee, Merrill Lynch & Co., Inc., are limited to those set forth in the Interest Rate Swaps. Neither Merrill Lynch & Co., Inc., the Seller nor the Interest Rate Swap Counterparty takes any responsibility for the information set forth herein other than the information set forth under the caption "THE SELLER, THE INTEREST RATE SWAP COUNTERPARTY, THE GUARANTOR, THE SELLER GUARANTEE, THE INTEREST RATE SWAP GUARANTEE AND THE FUNDING GUARANTEE."

As described under the caption "THE ISSUER" the Issuer is a joint powers authority, whose members include the City and the Agency and whose Board of Directors consists of the City Manager, the Director of Financial Management/CFO of the City and the City Treasurer. The officers of the Issuer are employees of the City.

The City Attorney for the City is an employee of the City. The City Attorney is representing both the Issuer and the City in connection with the issuance of the Bonds and the transactions represented by the Prepaid Gas Agreement, the Supply Agreement, the Issuer Commodity Swap, the Interest Rate Swaps and the Funding Agreement.

Bond Counsel is representing both the Issuer and the City in connection with the issuance of the Bonds and the transactions represented by the Prepaid Gas Agreement, the Supply Agreement, the Issuer Commodity Swap, the Interest Rate Swaps and the Funding Agreement.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "[]," "[]" and "[]," respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The summaries and explanations of provisions of law and documents in this Official Statement, including the information in the appendices, do not purport to be complete, and are qualified by this reference to such provisions, including the provisions in the Indenture and the other documents discussed under the caption "INTRODUCTION," where information is provided regarding how to obtain copies of such documents for a full and complete statement of their terms. The City and LBGO maintain websites at www.ci.long-beach.ca.us, www.longbeach.gov and www.lbgo.org. Information on such websites is not part of this Official Statement nor has such information been incorporated by reference herein and should not be relied upon in deciding whether to invest in the Bonds.

The execution and delivery of this Official Statement by the Chair of the Issuer has been duly authorized by the Issuer. Concurrently with the delivery of the Bonds, the Issuer and the City each will furnish to the Underwriter a certificate to the effect that this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading.

LONG BEACH BOND FINANCE AUTHORITY

By _____
Chair

APPENDIX A

THE LONG BEACH GAS AND OIL DEPARTMENT AND THE GAS ENTERPRISE

History

The Gas Enterprise is the largest municipally owned natural gas utility in the State and the fifth largest in the United States. In 1924, the City purchased the natural gas system from the Southern Counties Gas Company for \$3 million. The voter-approved acquisition included over 300 miles of main pipeline serving about 32,000 customers. Today, the natural gas distribution system serves approximately 145,000 customers, with an average daily consumption of approximately [30] million cubic feet of natural gas, through approximately 2,000 miles of natural gas mains and services.

The City is one of only three cities in the State with a municipal owned natural gas utility. Over the years, local control of LBGO has enabled the residents and businesses of the City and the City of Signal Hill to enjoy safe, efficient, high quality, and price competitive natural gas service.

LBGO's purpose is to regulate and control the use, sale, and distribution of natural gas by the City. The Gas Enterprise has been financed from earnings of LBGO and bond proceeds.

Although large reserves of City owned natural gas have been developed over the years, continued active demand has necessitated the purchase of out-of-state natural gas in substantial quantities. In 1998, the City Council approved the direct pass-through of natural gas commodity costs to customers allowing the City to fully recover the cost of purchasing natural gas. Under the City Charter, the rates to be charged users for any services or commodities supplied by any public utility owned and operated by the City are based upon the prevailing rates for similar services and commodities supplied or sold by other like utilities whether public or private, operating in the Southern California area.

Organization

Effective November 2001, the City's gas department and electrical generation bureau were merged into Long Beach Energy. Long Beach Energy was renamed the Long Beach Gas and Oil Department in 2006. The City Manager appoints the Director of LBGO who is responsible for directing and managing LBGO's daily operations. LBGO has a budgeted staff of 194.25, which is comprised of four operating bureaus: the Business Operations Bureau, the Gas Services Bureau, the Engineering and Construction Bureau and the Electric Generation Bureau.

The natural gas operations facility and LBGO's administrative headquarters are located at 2400 E. Spring Street in Long Beach. The facility accommodates the four operating bureaus referenced above as well as outlying natural gas facilities including district regulator stations, natural gas delivery points and compressed natural gas ("CNG") refueling facilities.

Employer/Employee Relations

LBGO currently employs approximately 240 people. All employees with the exception of management positions are hired through the City's Civil Service system. Employees are either represented by the Machinist Union IAM 176 (the "Machinist Union"), the Engineering Union (the "Engineering Union") or the Manager's Association (the "Manager's Association") depending on their classification. The current Memorandum of Understanding with the Machinist Union became effective on October 2, 2004 and expires on September 30, 2007. The current Memorandum of Understanding

with the Engineering Union became effective on October 2, 2004 and expires on September 30, 2008. The current Memorandum of Understanding with the Manager's Association became effective on October 2, 2004 and expires on September 30, 2008.

Service Area

LBGO is the primary provider of natural gas service within the incorporated limits of the City and land owned or leased by the City, and also provides natural gas service to the City of Signal Hill and small sections of surrounding communities including Lakewood, Bellflower, Compton, Seal Beach, Paramount and Los Alamitos. LBGO's service area encompasses approximately 50 square miles.

Natural Gas Distribution System

The natural gas distribution system infrastructure has a replacement value of approximately \$400 million and is the primary focus of LBGO's long-range plan. Facilities contained within the infrastructure include natural gas mains, service lines to residential and commercial customers meters, corrosion control rectifiers, and regulating and metering equipment.

The infrastructure represents approximately 1,800 miles of pipe, which includes approximately 90,000 natural gas services pipelines that provide gas to approximately 150,000 customer meters. Additionally, there are approximately 2,500 valves, 11 natural gas delivery stations and 43-district pressure regulating stations that control local delivery pressure between 7 pounds per square inch ("psi") and 40 psi.

Sources of Natural Gas Supply

[The City purchases its gas supply from several sources. The City's base load (approximately 80-90% of the City's average use) will be provided by MLCI pursuant to the Prepaid Gas Agreement and the Supply Agreement. The City's remaining gas requirements will be purchased from several local natural gas suppliers who deliver their gas supplies directly into the City's gas system. [Any additional volumes of natural gas needed by the City will be purchased from Coral Energy (Shell Oil).]

Environmental Issues Relating to the Gas Enterprise

LBGO occasionally encounters environmental conditions during the course of its regular operations. Pipeline construction crews infrequently encounter hydrocarbon-contaminated soil, typically in small quantities ranging from twenty to thirty cubic feet, while excavating bell holes to reach natural gas pipelines. This hydrocarbon-contaminated soil cannot be backfilled and must be disposed of by a remediation company. Pipeline construction crews also occasionally encounter material in small quantities, which contains asbestos, that is wrapped around natural gas pipelines. Such material is subsequently disposed of through the services of a hazardous waste management company.

Summary of Capital Improvement Program

LBGO is in the process of revising the natural gas infrastructure strategic plan using the concept of pipeline integrity as the fundamental approach. In the past, considerable resources have been expended on replacement of pipelines. Pipelines were primarily installed from the 1920's through the 1960's. The pipelines are well maintained, and age alone is not the decisive factor relative to replacement. Pipeline replacement depends upon such factors as the annual leakage survey and corrosion control results. The pipelines overall condition should determine replacement requirements. LBGO currently estimates that approximately \$78 million will need to be spent on pipeline replacement over the next seven years. Such

replacement costs are expected to be funded from Gas Enterprise Revenues. The segments of pipeline to be replaced are primarily of the 1920's, 1930's and 1940's vintage of pipe and replacement of such pipelines is based upon their condition and proposed developments within the City or by such issues as road moratoriums.

Pipeline mains are currently being replaced according to criteria developed in the pipeline integrity plan. The mains are leak surveyed on a regular basis pursuant to standards established in the operating and maintenance plan. The rationale for phased replacement of the pipelines depends on leakage criteria and the physical condition of the pipeline. Replacement of natural gas service lines, including the installation of corrosion resistant (annodeless) risers, is required to maintain service reliability. Installations of new service lines to support the increase in residential and redevelopment projects are proceeding concurrent with the replacement program.

The capital improvement plans of LBGO are expected to improve the integrity of the system. Pipeline replacements require LBGO to follow set procedures established by the U.S. Department of Transportation. These procedures require step increases in pressure followed by leak surveys and necessary repairs. Therefore, the upgrade process will result in locating and repairing minor leaks now rather than at a later time during routine pipeline maintenance. Operating and maintenance costs will be reduced in the long term by the eventual elimination of more than 50 pressure-regulating stations, installation of smaller diameter pipe, and required maintenance will be reduced as the number of critical valves is reduced. Safety will be improved, as there will be less likelihood of a high-pressure system leaking into a low-pressure system (crossing pressure sectors).

LBGO spent approximately \$25.66 million on capital improvements to the Gas Enterprise between 2002 and 2006. Such costs were financed from Gas Enterprise Revenues. LBGO expects to spend approximately \$78 million on capital improvements to the Gas Enterprise between 2007 and 2014. Such costs are expected to be financed from Gas Enterprise Revenues and proceeds of the Subordinate Commercial Paper Notes.

Natural Gas Rates, Fees and Charges

General. Natural gas rates are based on the City's costs for purchasing gas and operating and maintaining the Gas Enterprise. Natural gas costs will make up approximately 65% of the Gas Enterprise's Fiscal Year 2007-08 operating expense budget. Pursuant to the Supply Agreement, the City will agree to pay the Contract Price for the natural gas delivered by the Issuer. Rates and charges for natural gas service are established by the City Council and by City Charter requirements, based upon comparable rates charged by other surrounding natural gas utilities in Southern California. To establish retail rates, the Contract Price will be added to other revenue requirements related to the operation of the Gas Enterprise, including the payment of any outstanding debt and the funding of reserves. The City expects the Contract Price to be less than the rates charged by surrounding gas utilities. The present rate structure has been in effect since May 1, 2006

To establish retail rates, the Contract Price will be added to other revenue requirements related to the operation of the Gas Enterprise, including the payment of any outstanding debt and the funding of reserves.

Natural Gas Rate Structure. Natural gas rate schedules are established for residential and non-residential (commercial and industrial) users. The residential rate schedule consists of baseline and non-baseline tiers that ascend in price as consumption increases. Residential baseline volumes are seasonal and change between winter and summer. The non-residential rate schedules consist of daily service

charges and tiered transmission charges. Transmission charge prices decrease as non-residential usage increases. Non-residential users are charged based on a weighted average cost of gas.

The following table sets forth the Gas Enterprise rates for the past four Fiscal Years and the current Fiscal Year. The rates shown below are per therm (100,000 Btus) of natural gas usage.

TABLE A-1
Long Beach Gas and Oil Department
Rate Structure
Fiscal Years 2003 through 2007
(per therm (100,000 Btus))

User type and Monthly Rate Block	2003	2004	2005	2006	2007
Residential¹					
Daily service charge per meter	\$0.1644	\$0.1644	\$0.1644	\$0.1644	\$0.1644
Baseline Rates:					
Summer: 0-15	0.2329	0.2587	0.2808	0.2808	0.2808
Over 15	0.4128	0.4402	0.4631	0.4631	0.4631
Winter: 0-50	0.2329	0.2587	0.2587	0.2808	0.2808
over 50	0.4128	0.4402	0.4402	0.4631	0.4631
Small Non-Residential²					
Daily service charge per meter:					
< 1,000 terms/year	0.3288	0.3288	0.3288	0.3288	0.3288
> 1,000 terms/year	0.4932	0.4932	0.4932	0.4932	0.4932
Transmission charge:					
Tier I ³	0.3720	0.4130	0.4383	0.4517	0.4517
Tier II ⁴	0.2064	0.2283	0.2455	0.2423	0.2423
Tier III ⁵	0.0767	0.1020	0.1154	0.0907	0.0907
Large Non-Residential⁶					
Daily service charge per meter:	11.5068	11.5068	11.5068	11.5069	11.5069
Transmission charge:					
Tier I ⁷	0.1294	0.1424	0.1752	0.1853	0.1853
Tier II ⁸	0.0927	0.1009	0.1274	0.1326	0.1326
Tier III ⁹	0.0693	0.0744	0.0986	0.0990	0.0990
Tier IV ¹⁰	0.0525	0.0554	0.0749	0.0749	0.0749

¹ Monthly Residential charges include (1) a daily service charge per meter, (2) the baseline rate, and (3) the cost of the natural gas.

² Monthly Small Non-Residential charges include (1) a daily service charge per meter, (2) transmission charges, and (3) the cost of the natural gas.

³ All usage not to exceed 100 therms between April and November or 250 therms between December and March (prorated on a daily basis)

⁴ All usage exceeding Tier I volumes but not exceeding 4,167 therms monthly (prorated on a daily basis)

⁵ All usage exceeding 4,167 therms monthly (prorated on a daily basis)

⁶ Monthly Large Non-Residential charges include (1) a daily service charge per meter, (2) transmission charges, and (3) the cost of the natural gas.

⁷ Zero - 20,833 therms

⁸ 20,834 - 83,333 therms

⁹ 83,334 - 166,667 therms

¹⁰ Over 166,667 therms

Source: Long Beach Gas and Oil Department

Gas Demand and Customer Base

On average, the City provides its customers with 309,544 therms of natural gas per day. However, demand rises and falls depending on the season, with the winter months showing high consumption and the summer months lower consumption. In Fiscal Year 2005-06, the Gas Enterprise supplied approximately 145,000 users with approximately 112,980,000 therms of natural gas. The following table sets forth a five-year history of billing amounts, natural gas consumption in cubic feet by customer type, the average rate per thousand cubic feet and the average number of customers. For conversion purposes, 100 cubic feet multiplied by the Btu factor (1.025) equals approximately 1 therm.

TABLE A-2
Long Beach Gas and Oil Department
Natural Gas Sales
(000's)

Fiscal Year Ending Sept. 30	Consumption in Sales Dollars				Consumption in Cubic Feet				Average Rate Per MCF ¹	Average No. of Customers
	Residential	Commercial Industrial	Others	Total	Residential	Commercial Industrial	Others	Total		
2002	\$42,400	\$13,886	\$ 81	\$56,367	6,049,213	4,848,943	39,049	10,937,205	\$5.15	144
2003	49,888	18,354	1,350	69,592	5,651,109	4,287,971	640,659	10,579,739	6.58	145
2004	56,173	21,486	2,006	79,665	5,810,339	5,366,542	805,992	11,982,873	6.65	145
2005	63,556	25,579	2,440	91,575	5,735,844	5,298,961	757,496	11,792,301	7.77	149
2006	70,345	28,658	1,333	100,336	5,518,589	5,042,684	504,701	11,065,974	9.07	145

¹ Thousand cubic feet.

Source: Long Beach Gas and Oil Department

The following table sets forth the ten largest customers of the Gas Enterprise for the Fiscal Year-ended September 30, 2006. In the aggregate, the ten largest customers represented approximately 7% of the annual natural gas sales and/or transmission charges of LBGO.

TABLE A-3
Long Beach Gas and Oil Department
Ten Largest Customers
Fiscal Year Ended September 30, 2006

Customer	In Cubic Feet	In Dollar Sales
Monteney Pacific Power Corporation ¹	174,871,300	\$1,588,040
Memorial Hospital ¹	128,659,900	1,281,499
Long Beach Aquarium Cogeneration ¹	79,476,300	811,920
Edgington Oil ²	891,492,800	737,931
National Gypsum ²	767,084,300	608,747
Long Beach Convention Center ¹	39,297,300	388,945
THUMS Cogeneration ²	364,686,400	387,004
Long Beach Convention Center – Arena ¹	41,762,800	383,093
Baker Commodity ¹	20,263,400	357,341
International Garment & Finish ¹	<u>30,729,700</u>	<u>332,508</u>

Total

2,538,324,200

\$6,877,027

¹. Natural gas sales and transmission charges.

² Transmission charges only.

Source: Long Beach Gas and Oil Department

Financial Information

Summary of Financial Operations. The following tables present the Statements of Net Assets and Statements of Revenues, Expenses and Changes in Fund Net Assets for the Gas Enterprise Fund of the City (the "Gas Enterprise Fund"). The statements show the audited results for Fiscal Years 2002 through 2006.

TABLE A-4
City of Long Beach Gas Enterprise Fund
Statements of Net Assets
Fiscal Years ended September 30, 2002 through 2006
(\$000's)

Assets	2002	2003	2004	2005	2006
Current assets:					
Pooled cash and cash equivalents	\$16,170	\$12,077	\$10,282	\$12,872	\$10,812
Customer accounts receivable, net of allowance for doubtful accounts	2,050	2,729	2,371	3,618	3,235
Due from the City of Long Beach	578	603	633	663	698
Inventory	<u>1,463</u>	<u>1,221</u>	<u>1,191</u>	<u>1,012</u>	<u>1,024</u>
Total current assets	<u>20,261</u>	<u>16,630</u>	<u>14,477</u>	<u>18,165</u>	<u>15,769</u>
Non-current assets:					
Restricted assets:					
Cash—customer deposits	1,882	1,896	3,277	3,388	4,093
Non-pooled investments	1,068	1,068	1,068	764	650
Advance to Tidelands Operating Nonexpendable Trust Fund	7,545	6,941	6,308	5,645	4,946
Other Long-Term Receivables	0	0	9,886	0	0
Allowance for doubtful accounts	0	0	(9,886)	0	—0
Capital assets:					
Non depreciable	2,810	1,311	2,329	3,883	5,399
Depreciable, net	<u>54,297</u>	<u>54,362</u>	<u>53,772</u>	<u>54,678</u>	<u>59,875</u>
Total noncurrent assets	<u>67,602</u>	<u>65,578</u>	<u>66,754</u>	<u>68,358</u>	<u>74,963</u>
Total assets	<u>87,863</u>	<u>82,208</u>	<u>81,231</u>	<u>86,523</u>	<u>90,732</u>
Liabilities					
Current liabilities:					
Accounts payable	3,632	5,949	4,398	8,574	9,911
Accrued wages payable	214	226	299	318	365
Due to the City of Long Beach	60	65	133	148	180
Deferred revenues	73	127	191	385	567
Amounts payable from restricted assets:					
Accrued interest payable	194	183	171	32	29
Current portion of long-term debt	600	625	655	885	905
Customer deposits	<u>1,882</u>	<u>1,896</u>	<u>1,951</u>	<u>1,944</u>	<u>1,822</u>
Total current liabilities	<u>6,655</u>	<u>9,071</u>	<u>7,798</u>	<u>12,286</u>	<u>13,779</u>
Long-term debt, net of current portion	8,840	8,215	7,560	6,500	13,350
Less unamortized discount	<u>(228)</u>	<u>(207)</u>	<u>(187)</u>	<u>(118)</u>	<u>(107)</u>
Net long-term debt	<u>8,612</u>	<u>8,008</u>	<u>7,373</u>	<u>6,382</u>	<u>13,243</u>
Total liabilities	<u>15,267</u>	<u>17,077</u>	<u>15,171</u>	<u>18,668</u>	<u>27,022</u>
Net Assets					
Invested in capital assets, net of related debt	47,895	47,040	48,073	51,294	51,125
Restricted for capital project	0	0	0	1,357	2,107
Restricted for debt service	274	260	1,568	819	785
Unrestricted	<u>24,427</u>	<u>17,831</u>	<u>16,419</u>	<u>14,385</u>	<u>9,693</u>
Total net assets	<u>\$72,596</u>	<u>\$65,131</u>	<u>\$66,060</u>	<u>\$67,855</u>	<u>\$63,710</u>

Source: Audited Financial Statement of the City of Long Beach Gas Enterprise Fund.

TABLE A-5
City of Long Beach Gas Enterprise Fund
Statements of Revenues, Expenses and Changes in Fund Net Assets
Fiscal Years ended September 30, 2002 through 2006
(\$000's)

	2002	2003	2004	2005	2006
Operating revenues:					
Sale of gas	\$56,321	\$69,352	\$77,224	\$92,103	\$100,305
Other service charges	<u>5,980</u>	<u>5,970</u>	<u>6,528</u>	<u>6,895</u>	<u>7,176</u>
Total operating revenues	<u>62,301</u>	<u>75,322</u>	<u>83,752</u>	<u>98,998</u>	<u>107,481</u>
Operating expenses:					
Purchase of gas	29,861	44,786	51,541	62,673	69,643
Personal services	10,764	9,834	10,456	11,281	11,610
Customer service and general	10,520	9,559	10,878	9,813	15,166
Provision for doubtful accounts	144	152	184	341	366
Depreciation expense	<u>3,185</u>	<u>3,291</u>	<u>3,107</u>	<u>3,007</u>	<u>3,242</u>
Total operating expenses	<u>54,474</u>	<u>67,622</u>	<u>76,166</u>	<u>87,115</u>	<u>100,027</u>
Operating income	<u>7,827</u>	<u>7,700</u>	<u>7,586</u>	<u>11,883</u>	<u>7,454</u>
Non-operating income (expense):					
Interest income	1,029	644	491	562	674
Interest expense	(489)	(549)	(433)	(447)	(401)
Loss on disposition of property	(366)	(193)	(96)	(156)	(443)
Other income, net	<u>341</u>	<u>287</u>	<u>4,966</u>	<u>5,451</u>	<u>5,572</u>
Total non-operating income	<u>515</u>	<u>189</u>	<u>4,928</u>	<u>5,410</u>	<u>5,402</u>
Net income before operating transfers	8,342	7,889	12,514	17,293	12,856
Transfers to other City departments	<u>(7,851)</u>	<u>(15,355)</u>	<u>(11,584)</u>	<u>(15,497)</u>	<u>(17,001)</u>
Change in net assets	491	(7,466)	930	1,795	(4,145)
Total net assets, beginning of year	<u>72,105</u>	<u>72,596</u>	<u>65,130</u>	<u>66,060</u>	<u>67,855</u>
Total net assets, end of year	<u>\$72,596</u>	<u>\$65,130</u>	<u>\$66,060</u>	<u>\$67,855</u>	<u>\$63,710</u>

Source: Audited Financial Statement of the City of Long Beach Gas Enterprise Fund

The following discussion is an unaudited overview of the Gas Enterprise Fund's financial statements for the Fiscal Years ended September 30, 2006 and 2005. This summary is designed to provide a general overview of the Gas Enterprise Fund's finances. Questions concerning any information provided in this discussion or requests for additional financial information should be addressed to the Director of Long Beach Gas and Oil, 2400 E. Spring Street, Long Beach, California 90806.

The assets of the Gas Enterprise Fund exceeded its liabilities at the close of Fiscal Year 2006 by \$63.710 million. Of this amount, \$9.693 million is unrestricted which is available to meet the Gas Enterprise Fund's ongoing obligations to creditors and customers. Fiscal Year 2006 total net assets decreased by \$4.145 million from Fiscal Year 2005. At the end of Fiscal Year 2006, unrestricted net assets represented 9.7% of annual operating expenses, as compared with 16.5% for Fiscal Year 2005. Current and certain non-current assets (restricted assets and advances to Tidelands Operating Nonexpendable Trust Fund) decreased to \$25.458 million at the close of Fiscal Year 2006, a \$2.504 million decrease compared to Fiscal Year 2005.

A portion of the Gas Enterprise Fund's net assets (80.2%) reflects its investment in capital assets, such as distribution systems, storage structures, buildings, improvements and equipment. The Gas Enterprise Fund uses these capital assets to provide services to customers. An additional portion of the Gas Enterprise Fund's net assets (4.5%) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and capital asset

improvement. The unrestricted portion of the Gas Enterprise Fund's net assets (15.2%) are not subject to external restrictions and may be used to meet the Gas Enterprise Fund's ongoing obligations to creditors and customers. Restricted net assets for debt service decreased to \$785,000 in Fiscal Year 2006 compared to \$819,000 in Fiscal Year 2005. A restricted net asset for capital projects was established in Fiscal Year 2006.

The Gas Enterprise Fund's capital assets (net of accumulated depreciation) as of September 30, 2006 were \$65.274 million. As of September 30, 2006, capital assets included investments in land (\$203,000); buildings, structures and facilities (\$5.642 million); distribution systems (\$119.971 million); storage structures (\$318,000); machinery and equipment (\$1.940 million); and construction in progress (\$5.196 million); and accumulated depreciation of \$67.996 million. For Fiscal Year 2006, capital assets increased 11.5%. This increase was mainly due to improvements in the distribution system.

At the end of Fiscal Year 2006, the Gas Enterprise Fund had long-term debt outstanding of \$13.243 million, which consisted of the 2005 Gas Utility Bonds (\$5.595 million), Subordinate Commercial Paper Note, Series A and B (\$7.755 million) and an unamortized discount and issuance cost of \$107,000. The debt payments are fully reimbursed by the City's Redevelopment Agency Fund and the Tideland's Fund.

Total current liabilities increased to \$13.779 million in Fiscal Year 2006 compared to \$12.286 million in Fiscal Year 2005, a 12.2% increase primarily due to an increase in accounts payable.

Operating revenues increased to \$107.481 million in Fiscal Year 2006 primarily due to an increase in natural gas sales of about 9% compared to Fiscal Year 2005. The change in natural gas sales revenue is attributed to an increase in residential natural gas sales by 12.3% and an increase in commercial and industrial natural gas sales by 8%.

The total number of customer accounts decreased to 139,298 in 2006, compared to 142,870 in 2005. Proportionately, the volume of natural gas sold decreased to 11,342,624 decatherms in 2006 compared to 12,075,972 decatherms in 2005. The price per decatherm of natural gas increased by 19.74% in Fiscal Year 2006 as compared to Fiscal Year 2005. The average cost per decatherm in 2006 was \$7.5878 compared to \$6.3369 in 2005. In spite of changes in natural gas prices, rates charged by the City compared favorably to rates charged by Southern California Gas Company. In accordance with the City Charter, the rates to be charged to the users for any services or commodities supplied by any public utility owned or operated by the City must be based upon the prevailing rates for similar services and commodities supplied or sold by other like utilities whether public or private, operating in the Southern California area.

Other income increased to \$5.572 million in Fiscal Year 2006, compared to \$5.451 million in Fiscal Year 2005.

Interest income increased to \$674,000 in Fiscal Year 2006 as compared to \$562,000 in Fiscal Year 2005 primarily due to higher interest rates on investments. Interest rates averaged 3.69% in Fiscal Year 2006 compared to 2.68% in Fiscal Year 2005.

Total operating expenses for Fiscal Year 2006 increased 14.8% compared to Fiscal Year 2005. Of this increase, 11% is attributed to increased natural gas purchases, 0.4% to personal services and 6.1% to customer service and general expenses.

The purchase of natural gas increased to \$69.643 million in Fiscal Year 2006 compared to \$62.673 million in Fiscal Year 2005 as a result of an increase in the average cost of natural gas purchased.

The total volume of natural gas purchased in Fiscal Year 2006 was 11,671,392 decatherms, compared to 12,220,738 decatherms in Fiscal Year 2005. The average cost of natural gas per decatherm increased to \$7.2367 in Fiscal Year 2006, compared to \$6.3018 in Fiscal Year 2005.

Personal services expenses showed a net increase in Fiscal Year 2006 up to \$11.610 million, compared to \$11.281 million in Fiscal Year 2005. The 3% increase was primarily due to negotiated cost of living increase and cost increases of other benefits during Fiscal Year 2006.

The Fiscal Year 2006 increase in customer service and general expenses to \$15.166 million compared to \$9.813 million in Fiscal Year 2005, is attributed to a combination of several factors, including professional services such as engineering and corrosion control. These expenses increased due to additional pipeline replacement and corrosion control projects.

Outstanding Indebtedness. Pursuant to an Indenture of Trust, dated as of February 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., the City issued its 2005 Gas Utility Refunding Revenue Bonds in the aggregate principal amount of \$7,675,000 (the "Series 2005 Gas Utility Bonds"), which, as of August 15, 2007, were outstanding in the aggregate principal amount of \$5,595,000.

The Series 2005 Gas Utility Bonds are payable solely from and secured by a pledge of Gas Enterprise Revenues. *The City's obligation to repay the Series 2005 Gas Utility Bonds from Gas Enterprise Revenues has priority over its obligation to pay maintenance and operation expenses of the Gas Enterprise, including the Contract Price for the Gas Supply.*

Pursuant to a Master Subordinate Trust Indenture, dated as of July 1, 2005, and a First Supplemental Subordinate Trust Indenture, dated as of July 1, 2005, both by and between the City and Deutsche Bank National Trust Company, as trustee (collectively, the "Subordinate Indenture"), the City is authorized to issue and have outstanding, from time to time, up to \$35,000,000 in aggregate principal amount of its Subordinate Gas Utility Revenue Commercial Paper Notes (the "Commercial Paper Notes"). As of August 15, 2007, there was \$15,255,000 aggregate principal amount of Commercial Paper Notes outstanding. In connection with the Commercial Paper Notes, the Commission entered into a Reimbursement Agreement, dated as of July 1, 2005 (the "CP Reimbursement Agreement"), with JPMorgan Chase Bank, N.A. (the "CP Bank"), pursuant to which the CP Bank issued an irrevocable direct pay letter of credit (the "CP Letter of Credit") to secure the timely payment of the principal of and interest on the Commercial Paper Notes.

The Commercial Paper Notes and the payment obligations of the City under the CP Reimbursement Agreement are payable solely from and secured by a pledge of Subordinate Gas Enterprise Revenues. Subordinate Gas Enterprise Revenues are Gas Enterprise Revenues less the payments due on the 2005 Gas Utility Bonds and any additional senior lien obligations issued by the City with a lien on Gas Enterprise Revenues on parity with the 2005 Gas Utility Bonds. *The City's obligation to repay the Commercial Paper Notes and the payment obligations of the City under the CP Reimbursement Agreement from Subordinate Gas Enterprise Revenues has priority over its obligation to pay maintenance and operation expenses of the Gas Enterprise, including the Contract Price for the Gas Supply.*

Accounting and Annual Budget. The City's and LBGO's Fiscal Year begins on October 1 and ends the subsequent September 30. All accounting functions for LBGO are fully computerized providing control of income and expense. All operating records of LBGO are, as provided by the Charter, audited annually by the City Auditor of the City as well as by an independent certified public accountant.

An annual operating budget is developed by LBGO staff and is then submitted to the City Manager for inclusion in the City budget. The City Council must approve the City budget prior to the beginning of each Fiscal Year.

Risk Management and Insurance. The City is required to maintain insurance from reputable insurance companies or qualified self insurance against such risks as are usually covered in connection with gas utility operations similar to the Gas Enterprise. The City is not required to carry insurance against losses due to seismic activity. The City does not carry specific insurance with respect to the Gas Enterprise. The Gas Enterprise is insured as part of the City's overall insurance program.

The City is self-insured and carries property, excess workers compensation, municipal liability, boiler and machinery, and crime insurance. Additionally, the City has in place all-risk property insurance in the amount of \$1 billion and a Public Employee Dishonesty, including Faithful Performance policy, with limits of \$5 million which covers all employees, officers and elected officials.

Pension Plan. LBGO participates on a cost-sharing basis with the City in the California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, including annual cost-of-living adjustments ("COLA"), and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and City ordinance. LBGO is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. CalPERS does not calculate a separate pension obligation for LBGO. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. Since CalPERS is on a fiscal year ending June 30, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30 which differs from the City's and LBGO's September 30 fiscal-year end.

Under the terms of the contract between CalPERS and the City, all full time employees of the City (including LBGO's full-time employees) are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple tier retirement plan with benefits varying by plan. Vested first and second tier safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 3% of the employee's highest paid year of employment for each year of credited service. Vested first and second tier non-safety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service for the first tier, and for the second tier effected in fiscal year 2004. The City created tier III for non-safety employees hired after October 1, 2006. Vested tier III non-safety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service.

The City amended its safety and miscellaneous retirement plans to create second tiers in fiscal year 1990 and a third tier for miscellaneous employees in fiscal year 1996. During fiscal year 2002 the third tier was eliminated and plan participants were absorbed into the second tier. A third tier was set up effective for fiscal year 2007. Retirees under the first tier are eligible to receive a maximum annual 5% cost-of-living increase in their retirement benefit, while those under the second and third tier are eligible to receive a maximum annual 2% cost-of-living increase.

In November 1998, the City was informed by CalPERS that all of its retirement plans were overfunded based on the actuarial valuation completed as of June 30, 1997. Accordingly, the City's employer contribution rates were reduced by CalPERS to zero for all plans effective November 13, 1998.

Participants were required to contribute 7% of their earnings for all miscellaneous and 9% for all police, fire and lifeguard employees. The City continued to make these employee contributions as required by CalPERS law through July 2, 1999 at which time it was informed by CalPERS that no further contributions were required. The City was overfunded through September 30, 2004 and was not required to pay CalPERS any employee or employer contributions for any of its plans through fiscal year 2004.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. The City contribution payments to CalPERS for fiscal year 2006 for both Safety and Miscellaneous Plans were 15.100% and 11.325% respectively. The employee rate for Safety was 9%, miscellaneous tier one and two employee rate was 8% and miscellaneous tier three effective in fiscal year 2007 will be 7%. Safety employees paid CalPERS 1% of the 9% employee rate and the City paid 8%. Miscellaneous employees paid 2% of the 8% to CalPERS and the City paid 6%. Management employees and certain employee groups who serve in sensitive, confidential capacities paid 1% of the 8% to CalPERS and the City paid 7%. Effective in fiscal year 2007 Safety will pay 2% of the 9% employee rate and all miscellaneous employees in tier one and two will pay 2% of the 8%. Miscellaneous employees in tier three will pay 2% of the 7% employee rate. LBGO's operating budget for fiscal year 2007 includes the estimated CalPERS contribution of \$1,648,100.

The most recent actuarial valuation of the City's Safety pension plan, as of June 30, 2005, was performed by the Actuarial Office of CalPERS (the "Actuary") and summarized by the Actuary in its report dated October 20, 2006 (the "Safety Plan Actuarial Report"). In the Safety Plan Actuarial Report, the Actuary concluded that the funded ratio of the City's Safety pension plan as of June 30, 2005 was 103.0%, an increase from the funded ratio of 102.2% in the actuarial valuation as of June 30, 2004. As of June 30, 2005, the City's Safety pension plan was overfunded by approximately \$39.6 million as compared to an overfunding of \$28.4 million as of June 30, 2004. The overfunding was calculating as the difference between the actuarial value of assets in the City's Safety pension plan (\$1.354 billion as of June 30, 2005) and the accrued actuarial liabilities of the City's Safety pension plan (\$1.314 billion as of June 30, 2005).

The most recent actuarial valuation of the City's Miscellaneous pension plan, as of June 30, 2005, was performed by the Actuary and summarized by the Actuary in its report dated October 20, 2006 (the "Miscellaneous Plan Actuarial Report"). In the Miscellaneous Plan Actuarial Report, the Actuary concluded that the funded ratio of the City's Miscellaneous pension plan as of June 30, 2005 was 95.4%, a slight decrease from the funded ratio of 95.9% in the actuarial valuation as of June 30, 2004. As of June 30, 2005, the City's Miscellaneous pension plan had an unfunded actuarial accrued liability (the "UAAL") of approximately \$62.9 million as compared to a UAAL of \$53.2 million as of June 30, 2004. The UAAL is the difference between the actuarial value of assets in the City's Miscellaneous pension plan (\$1.320 billion as of June 30, 2005) and the accrued actuarial liabilities of the City's Miscellaneous pension plan (\$1.383 billion as of June 30, 2005).

As of June 30, 2005, the actuarial value of assets of the City's Safety pension plan (\$1.354 billion) differed from the market value of assets (\$1.393 billion) by approximately \$39 million and the actuarial value of assets of the City's Miscellaneous pension plan (\$1.320 billion) differed from the market value of assets (\$1.357 billion) by approximately \$38 million, because the actuarial value is the product of a "smoothing" technique used to dampen the effect of market volatility. The following actuarial smoothing technique was used by the Actuary: (1) first an expected value of assets is computed by bringing forward the prior year's actuarial value of assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return; and (2) the actuarial value of assets is then computed as the expected value of assets plus one-third of the difference between the actual market value of assets and the expected value of assets as of the valuation date. However, in no case will the actuarial value of assets be less than 90% or greater than 110% of the actual market value of assets. As of June 30,

2004, the actuarial value of assets of the City's Safety pension plan differed from the market value of assets by approximately \$21 million, and the actuarial value of assets of the City's Miscellaneous pension plan differed from the market value of assets by approximately \$21 million.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. In the event that a plan's accrued liability exceeds the actuarial value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Post-Retirement Health Care Benefits. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested; however, under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental and long-term care insurance premiums under the City's Retired Employees Health Insurance Program. Once the cash value of the retired employee's unused sick leave is exhausted, the retiree is required to pay all premiums. The City provided a one-time early retirement incentive of a maximum of \$25,000 for employees who retired during calendar year 1996. The amount of the incentive was based on age, and was credited to accumulated sick leave to be used towards health insurance costs during retirement. In fiscal year 2004, management was offered a 16 hour increase in sick leave per year of service for retirement by June 30, 2004.

At September 30, 2006, there were 769 participants in the City's Retired Employees Health Insurance Program, and the non-interest bearing chase value equivalent of the remaining unused sick leave for the current retirees totaled \$20,079,000. Total premiums paid by the City under the Retired Employees Health Insurance Program during the twelve months ended September 30, 2006, were \$5,527,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

The City has recorded a liability in the Employee Benefits Internal Service Fund of \$70,556,000, based on an actuarial study of current and future retiree accumulated sick leave as of September 30, 2005 and updated as of September 30, 2006. The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.0%; wage increases of 3.5% per year for miscellaneous and 4.5% per year for safety employees, and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$6,200,000, recorded in current accrued wages and benefits, has been fully funded; the long-term portion of the liability of \$64,356,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

Investment Policy. LBGO's cash and investments, including restricted cash and investments, are pooled with the other City funds and maintained by the City Treasurer. Interest income and gains and losses earned on pooled cash and investments are allocated monthly to the various pool participants based on their average daily cash balances. LBGO is required by the Charter to participate in the City Treasurer's pool.

The City maintains an Investment Policy, which, pursuant to the provisions of Section 53646 of the California Government Code, is annually submitted to and reviewed by the Investment Committee of

the City and approved by the City Council. Quarterly reports are also provided to the City Manager, City Auditor, and the City Council which detail investment activity and portfolio balances. In addition, the Investment Committee, comprised of the City Manager, City Auditor, City Attorney, Director of Financial Management, City Treasurer, City Controller, Budget Manager and the Chief Financial Officers of the Harbor and Water Departments meets quarterly, or as needed, to review investment policies and strategies and to make recommendations consistent with approved investment policies.

The goal of the Investment Policy is to invest public funds in a prudent manner, maintaining maximum security, meeting the daily cash flow demand of the City and conforming to all State and local statutes governing the investment of public funds. The objectives of the Investment Policy are, in the following order of priority:

(a) Safety of principal: through management of both credit risk and market risk as well as the application of the "Prudent Investor Rule." Credit risk is to be mitigated through prudent investment choices and portfolio diversification. Market risk is to be mitigated by limiting the weighted average maturity of the City's portfolio to three years.

(b) Sufficient liquidity: to meet all operating requirements that might be reasonably anticipated.

(c) Return on investment: to attain market average rates of return through economic cycles. The investment strategy is to seek above market average rates of return consistent with the risk limitations and prudent investment principles of the City's Investment Policy. The City has established two benchmark measures for the pool funds portfolio: the 91-day U.S. Treasury Bill rate for the short-term portfolio and the Merrill Lynch 1-3 year Government/Agency Index for the long-term portfolio.

The City's investment alternatives are specified in the California Government Code, Sections 53600 et seq. Within this framework, the Investment Policy specifies authorized investments, subject to certain limitations.

According to the City Treasurer's Monthly Report for the quarter ending June 30, 2007, the City's invested funds totaled approximately \$1.6 billion (of which approximately \$22 million consisted of Gas Enterprise Fund monies). The investment portfolio includes a variety of fixed income securities which vary in maturity from one day to five years. These securities include U.S. Treasury Notes, U.S. Agency Notes, Medium-Term Corporate Notes, and other fixed income instruments. On June 30, 2007, 84.30% of the total City Portfolio was invested in U.S. Treasury and Agency Notes, 3.19% in Medium-Term Notes, 9.31% in Commercial Paper, 1.87% in the State of California Local Agency Investment Pool ("LAIF"), and the balance of 1.34% was invested in other types of fixed income securities.

A summary of the City Treasurer's Monthly Report for the quarter ended June 30, 2007, is set forth below:

TABLE A-7
City of Long Beach
Invested Funds
(Quarter Ended June 30, 2007)

	Pooled Fund
Invested Market Balance	\$1,600,371,231
Portfolio Market Yield	4.59%
Short-term Average Portfolio Maturity in Days	652
Long-term Average Portfolio Maturity in Years	1.79

Source: City of Long Beach

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF
THE CITY OF LONG BEACH
GAS ENTERPRISE FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF LONG BEACH

THE FOLLOWING INFORMATION IS SUPPLIED FOR INFORMATIONAL PURPOSES ONLY. THE BONDS WILL BE SPECIAL OBLIGATIONS OF THE ISSUER AND THE PRINCIPAL AND REDEMPTION PRICE OF, AND INTEREST ON, THE BONDS WILL BE PAYABLE SOLELY FROM THE REVENUES AND THE OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE AND WILL NOT CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE ISSUER. THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR LIEN OR CHARGE UPON, ANY PROPERTY OF THE ISSUER OR ANY OF ITS INCOME OR RECEIPTS EXCEPT THE REVENUES AND THE OTHER FUNDS PLEDGED PURSUANT TO THE INDENTURE WHICH ARE SUBJECT TO THE PROVISIONS OF THE INDENTURE PERMITTING THE APPLICATION THEREOF FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH THEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ISSUER, THE CITY, THE STATE OF CALIFORNIA, OR ANY OTHER PUBLIC AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS WILL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE ISSUER OR THE CITY TO LEVY OR PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF THE BONDS. THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE ISSUER, THE CITY, THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY (OTHER THAN THE SPECIAL OBLIGATION OF THE ISSUER AS PROVIDED IN THE INDENTURE).

General

The City is a municipal corporation and chartered city of the State of California (the "State") and encompasses approximately 52 square miles of coastal area located on the southern edge of the County of Los Angeles (the "County"). With a current population of approximately 490,000, it is the second largest city in the County and the fifth largest city in the State. The City's climate is mild, with temperatures ranging from an average of 54 degrees in January to 72 degrees in July. Precipitation averages 12.1 inches per year. The center of the City is 22 miles south of downtown Los Angeles, 450 miles south of San Francisco and 110 miles north of San Diego. The City has long been a major industrial center and popular beach resort area. The Port of Long Beach (the "Port"), along with its related commercial activities, imparts strength to the local economy. Further, the City has been successful in building a substantial tourist and convention business and is currently taking vigorous steps to augment tax revenues from these sources.

Municipal Government

The City was originally incorporated in 1888, and after a short period of disincorporation, was reincorporated on December 13, 1897. Since 1907, the City has been governed as a charter city. The present City charter was originally adopted in 1921 and has been amended from time to time.

The City operates under the council-manager form of government with a nine-member City Council. City Council members are nominated and elected by district to serve four-year terms, with a maximum of two such terms. The Mayor is nominated and elected by the City at large. The Vice-Mayor

is elected by the City Council from among its members. Other city-wide elected offices are City Attorney, City Auditor and City Prosecutor.

The City Manager is appointed by and serves at the discretion of the Mayor and the City Council. As head of the municipal government, the City Manager is responsible for the efficient administration of all departments, with the exception of the elective offices noted above and the following three semi-autonomous commissions: Civil Service Commission, Board of Water Commissioners and Board of Harbor Commissioners. The City currently employs approximately 5,700 persons within 22 departments.

The police department consists of approximately 1,478 uniformed officers and supporting personnel. The fire department operates 23 fire stations and 13 other facilities with approximately 568 firefighters, officers and employees.

In 1931, a Charter amendment was passed which created the Board of Water Commissioners and authorized the City to join the Metropolitan Water District of Southern California. These decisions sought to ensure an adequate water supply for the City.

Within the framework of the City's General Plan, orderly growth and development of the community is controlled by a three-step planning and budgetary process utilizing the following instruments: the annual budget, the six-year Capital Improvement Program and the five-year Long Range Financial Plan.

Population

The City's population as of January 1, 2006, was estimated to be 490,166 persons. This figure represents 4.8% of the corresponding County figure and 1.3% of the corresponding State figure. The City's population increased 28.6% during the three decades between 1970 and 2000. The following table illustrates the City's population growth relative to the population of the County and the State. Population data for 2002-2006 are as of January 1, while the census amounts for 1970, 1980, 1990 and 2000 are as of April 1.

**TABLE C-1
City of Long Beach,
County of Los Angeles and State of California
Population Data**

Year	City of Long Beach	County of Los Angeles	State of California
2006	490,166	10,245,572	37,172,015
2005	491,564	10,226,506	36,810,358
2004	487,305	10,107,451	36,271,091
2003	481,026	9,979,361	35,691,442
2002	473,363	9,828,805	35,088,671
2000	459,900	9,487,400	33,753,000
1990	427,200	8,832,500	29,558,000
1980	361,355	7,477,421	23,667,836
1970	358,879	7,041,980	19,971,068

Source: California State Department of Finance

Personal Income

The following table sets forth the yearly total effective buying income and the median household effective buying income for the City, the County and the State for the periods of 2002 through 2006:

**TABLE C-2
City of Long Beach,
County of Los Angeles and State of California
Personal Income 2002-2006**

Year ¹	Area	Total Effective Buying Income (in Thousands)	Median Household Effective Buying Income
2006	City of Long Beach	\$ 7,875,111	\$35,493
	Los Angeles County	180,131,260	40,335
	State of California	720,803,929	44,890
2005	City of Long Beach	7,753,885	34,722
	Los Angeles County	177,575,730	39,414
	State of California	705,108,410	43,915
2004	City of Long Beach	7,436,738	33,759
	Los Angeles County	169,307,295	38,311
	State of California	674,721,020	42,924
2003	City of Long Beach	7,195,690	33,743
	Los Angeles County	162,413,790	37,983
	State of California	647,879,427	42,484
2002	City of Long Beach	8,148,871	40,086
	Los Angeles County	170,440,432	40,789
	State of California	650,521,407	43,532

¹ The information reported by Sales & Marketing Management Magazine, "Survey of Buying Power," for each year is based on statistics compiled during the previous year.

Source: Sales & Marketing; Survey of Buyer Power and Media Markets; 2002-2006

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Employment

The following table sets forth the average employment for major industry types within the City for the period of January through March 2006:

TABLE C-3
Los Angeles-Long Beach Labor Market
Wage and Salary Employment by Industry
January – March 2006

Industry	Employment	Percent of Total
Services	75,125	44.95%
Government	26,798	16.04
Manufacturing	17,600	10.53
Retail Trade	14,487	8.67
Transportation, Warehousing, Utilities	12,389	7.41
Finance, Insurance, Real Estate	8,863	5.30
Construction and Mining	6,068	3.63
Wholesale Trade	5,726	3.43
Agriculture, Forestry, Fishing, Hunting	<u>65</u>	<u>0.04</u>
Total	<u>167,121</u>	<u>100.00%</u>

Source: State of California Employment Development Department, Labor Market Division

The California Employment Development Department compiles data monthly on the status of employment and unemployment in the Los Angeles-Long Beach labor market (Los Angeles County). As an integral part of the Los Angeles metropolitan area, Long Beach benefits from the wide variety of job opportunities available in neighboring communities throughout the County.

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The following table sets forth labor force and non-farm employment by industry since 2002 in the City, the State and the United States:

TABLE C-4
Long Beach Labor Market
Labor Force, Employment and Unemployment Annual Average

Year	Area	Civilian Labor Force	Employment	Unemployment	Unemployment Rate (%)
2006	Long Beach ¹	234,642	221,842	12,800	5.5%
	California ¹	17,773,825	16,916,392	857,433	4.8
	United States ²	151,428,000	144,427,000	7,001,000	4.6
2005	Long Beach ³	233,000	218,800	14,200	6.1
	California ¹	17,695,000	16,746,900	948,700	5.4
	United States ²	149,320,000	141,730,000	7,591,000	5.1
2004	Long Beach ³	231,300	214,000	17,300	7.5
	California ³	17,499,600	16,407,900	1,091,700	6.2
	United States ²	147,401,000	139,252,000	8,149,000	5.5
2003	Long Beach ³	231,200	212,700	18,500	8.0
	California ³	17,403,900	16,212,600	1,191,300	6.8
	United States ²	146,510,000	137,736,000	8,774,000	6.0
2002	Long Beach	231,100	213,100	18,000	7.8
	California ³	17,330,700	16,168,200	1,162,500	6.7
	United States ²	144,863,000	136,485,000	8,378,000	5.8

¹ Preliminary estimate.

² U.S. Department of Labor – Bureau of Labor Statistics

³ Restated prior years.

Source: State of California Employment Development Department

Major Employers

The largest employer in the City is the Long Beach Unified School District; it employs approximately 9,064 people. The Long Beach Unified School District has 91 schools and serves approximately 93,500 students. The second largest employer in the City is The Boeing Company (“Boeing”), with facilities at the Long Beach Airport employing approximately 6,525 persons.

Other major employers in the City include government, education and health care providers, including the City, California State University (Long Beach), Long Beach Memorial Medical Center and the Veteran Affairs Medical Center.

The following table sets forth the City's major employers:

TABLE C-5
City of Long Beach
Major Employers as of January 2007

Employer	Number of Employees
1. Long Beach Unified School District	9,064
2. The Boeing Company	6,525
3. California State University, Long Beach	6,007
4. City of Long Beach	5,854
5. Long Beach Memorial Medical Center	3,500
6. Verizon	2,000
7. Long Beach City College	2,000
8. U.S. Postal Service	1,900
9. Veterans Affairs Medical Center	1,700
10. St. Mary's Medical Center	1,634
11. CSU Long Beach Foundation	1,600
12. Direct TV, Inc.	1,126
13. Pacific Hospital of Long Beach	800
14. The Bragg Corporation	800
15. Long Beach Transit	740

Source: City of Long Beach Unaudited Comprehensive Annual Financial Report for Fiscal Year 2005-06.

Industry

The City is an important component of the County industrial complex, the largest concentration of major industrial firms in the western United States. The aircraft/aerospace products group represents a very important single industrial category in the City. Boeing is the second largest employer in Long Beach. See "—Major Employers" above. Other important industries include petroleum and chemical production, metal fabrication and food and kindred product production.

Commercial Activity

Retail sales activity is located throughout the City, from the central business district to the updated Los Altos and Marina Pacifica "power" centers, both of which opened in 1996, and the Towne Center, a 100-acre retail development built on the site of the former Long Beach Naval Hospital, which opened in November 1998. The World Trade Center in the downtown area of the City contains more than two million square feet of office space and is an international focal point for shipping, finance and trade services.

North of the Port at the intersection of the San Diego (I-405) and Long Beach (I-710) freeways is the 55-acre Freeway Business Center, a high-technology office complex which includes Direct TV, Irvin Industries, Inc., Epson America, Inc., Mercedes Benz, Denso Sales California and Toyota. The 60-acre Long Beach Airport Business Park contains over 800,000 square feet of mid-rise office space and is the site for the Long Beach Business Park and the North Long Beach Business Center. Located in the northern part of the City, these facilities offer a combined total of more than 20.5 acres of office,

commercial and industrial space near the I-405 and I-710 Freeways, two major arteries in the Southern California freeway system. The 50-acre Kilroy Airport Center provides 800,000 square feet of office space, with an additional 250,000 square feet planned in the near future. Kilroy Realty is currently marketing Phase IV of the Kilroy Airport Center, which is expected to contain 230,000 square feet of office space within several 3 and 4-story buildings.

Several hotels are located in the City, including the Westin Long Beach, Renaissance, Hilton, Hyatt Regency Long Beach, Holiday Inn, Golden Sails Hotel, Long Beach Airport Marriott, the Queen Mary Hotel and the West Coast Long Beach Hotel. Plans for several all-suites and/or "conference" hotels in the downtown/ocean are also being constructed or formulated and some have been recently completed.

Taxable sales transactions in the City increased 6.3% between 2005 and 2006. During the period 2002 through 2006, taxable transactions increased 31.5%. The following table illustrates the City's annual volume of taxable transactions from 2002 through 2006:

TABLE C-6
City of Long Beach
Taxable 2002-2006 Transactions
(\$000's)

Type of Business	2006	2005	2004 ¹	2003 ¹	2002 ¹
Apparel Stores	\$ 152,635	\$ 152,729	\$ 142,287	\$ 134,738	\$ 128,458
General Merchandise Stores	301,672	296,269	280,571	254,007	193,295
Drug Stores	74,384	73,620	64,078	62,970	59,301
Food Stores	213,192	209,092	197,976	198,785	197,291
Packaged Liquor Stores	29,225	30,412	30,480	30,246	31,747
Eating/Drinking Places	647,695	606,028	556,316	516,576	491,646
Home Furnishings and Appliance Stores	170,494	134,569	110,771	143,272	136,963
Building Materials and Farm Implements	251,962	228,915	190,723	176,649	167,301
Auto Dealers/Auto Supplies	469,089	472,287	403,914	469,386	486,844
Service Stations	484,661	448,430	379,311	290,582	238,562
Other Retail Stores	<u>379,436</u>	<u>409,750</u>	<u>406,217</u>	<u>362,766</u>	<u>372,299</u>
Retail Stores Totals	3,174,445	3,062,101	2,762,644	2,639,977	2,503,707
All Other Outlets	<u>1,350,166</u>	<u>1,193,770</u>	<u>1,086,022</u>	<u>1,056,124</u>	<u>937,892</u>
Total All Outlets	<u>\$4,524,611</u>	<u>\$4,255,871</u>	<u>\$3,848,666</u>	<u>\$3,696,101</u>	<u>\$3,441,599</u>

¹ Restated.

Source: The HDL Companies and the State of California - Board of Equalization

Construction

The City issued building permits, valued at approximately \$343 million during Fiscal Year 2006. Of this total approximately 71% consisted of residential construction and approximately 29% consisted of non-residential construction. The City's annual permit values since Fiscal Year 2002 are set forth below:

TABLE C-7
City of Long Beach
Building Permit Valuations

Type of Permit	2006	2005	2004	2003	2002
Residential					
New Single Dwelling	\$ 41,568,987	\$ 27,968,744	\$ 16,824,990	\$ 11,032,511	\$ 35,396,824
New Multi Dwelling	73,148,732	46,356,534	32,401,304	109,533,689	43,115,646
Additions/Alterations	<u>130,081,723</u>	<u>134,878,539</u>	<u>116,133,274</u>	<u>104,586,708</u>	<u>85,067,499</u>
Total Residential	<u>\$244,799,442</u>	<u>\$209,203,817</u>	<u>\$165,359,568</u>	<u>\$225,152,908</u>	<u>\$163,579,968</u>
Non-Residential					
New Commercial	\$ 3,847,432	\$ 13,384,839	\$ 9,411,641	\$ 57,229,274	\$ 77,910,384
New Industrial	166,950	2,525,000	7,550,081	5,000,355	10,326,461
Other	12,777,673	8,055,962	15,598,360	31,086,592	42,046,740
Additions/Alterations	<u>81,803,819</u>	<u>62,529,344</u>	<u>68,900,290</u>	<u>100,248,915</u>	<u>57,591,861</u>
Total Non-Residential	<u>\$98,595,874</u>	<u>\$86,495,145</u>	<u>\$101,460,372</u>	<u>\$193,565,136</u>	<u>\$187,875,446</u>
Total Valuation	<u>\$343,395,316</u>	<u>\$295,698,962</u>	<u>\$266,819,940</u>	<u>\$418,718,044</u>	<u>\$351,455,414</u>

Source: City of Long Beach Department of Planning and Building

Visitor and Convention Business

Tourism has long been a significant factor in the City's economy. Boating facilities, marinas, sport fishing, shops and eight miles of public beaches attract thousands of visitors to the City each year. Other recreational facilities and attractions include the Long Beach Aquarium of the Pacific, the Queen Mary, the Community Playhouse, a municipal band and symphony orchestra, the Sports Arena, the Terrace and Center Theaters, Belmont Plaza Pool, the Long Beach Grand Prix and the Long Beach Ice Dogs professional ice hockey team. The Long Beach Museum of Art and the Museum of Latin American Art are both located within the City.

In 1994, the City approved the Queensway Bay Development Plan to create a premier waterfront attraction in Southern California, now known as Pike at Rainbow Harbor. The City is also home to Pike at Rainbow Harbor, a premier waterfront attraction in Southern California comprised of 300 acres of prime oceanfront land adjacent to the City's commercial core. It includes the Long Beach Aquarium, Rainbow Harbor, the expanded Long Beach Convention Center and up to 500,000 square feet of entertainment/retail development. The Long Beach Aquarium and Rainbow Harbor opened to the public in June 1998.

Hotel/motel occupancy tax receipts (currently computed at 12%) were approximately \$16.6 million in Fiscal Year 2006, as compared with \$15.5 in Fiscal Year 2005, \$14.1 million in Fiscal Year 2004, \$13.1 million in Fiscal Year 2003 and \$12.4 million in Fiscal Year 2002. The transient occupancy tax revenues have increased approximately 32.9% since Fiscal Year 2002.

The Queen Mary, a vintage ocean liner open to the public since 1971, provides the City with a unique and interesting tourist attraction. The six-deck "Living Sea Museum" is the only facility of its kind in the world. The Queen Mary features three major restaurants, three fast food service facilities and 40 specialty shops. The Queen Mary Hotel, with 365 rooms, is aboard the ship. In addition, a Russian submarine, the "Scorpion," is currently docked adjacent to the Queen Mary and is open for visitors. The Scorpion is another premier waterfront attraction complementing the popular Aquarium of the Pacific and

the Queen Mary. Carnival Cruise Lines operates its Long Beach homeport for its cruises to Mexico, adjacent to the Queen Mary.

The West Coast Long Beach Hotel, located on 18.8 waterfront acres west of the Queen Mary, is a development designed to afford 85% of the rooms with ocean views. The hotel consists of 200 rooms and offers resort style amenities in close proximity to the Queen Mary and Downtown attractions.

Formula 500 cars first raced through city streets and along the shoreline during the Long Beach Grand Prix in September 1975. The race was the first to be run on city streets in this country in 50 years. The City has hosted the United States Grand Prix West, now featuring “Indy” cars, every year since 1977 in what is now commonly known as the Long Beach Grand Prix. This event attracts 200,000 visitors to the City each year.

Long Beach Convention Center

The City has fostered convention business by expanding convention facilities and encouraging private sector participation. Trade shows, conventions, athletic contests and other events are held regularly at the Long Beach Convention and Entertainment Center (the “Convention Center”), which is part of the Pike at Rainbow Harbor oceanfront development. The Convention Center was enlarged in 1994 to accommodate 318,000 square feet of exhibit space. This expansion increased the total number of conventions and meetings held at the Convention Center, which competes with convention centers in cities such as Albuquerque, San Jose, Denver and Phoenix, and larger facilities in Los Angeles, Anaheim and San Diego. Marketing of the Convention Center by the Long Beach Convention and Visitors Bureau has resulted in increased occupancy rates for hotels serving the Convention Center. Since the terrorist attacks of September 11, 2001, the City has experienced an increase in occupancy rates as the Convention Center has attracted additional regional convention business.

A \$2.8 million renovation of the Convention Center was substantially completed in the fall of 2001. The renovation was completed pursuant to an agreement between the City and the Jehovah’s Witness organization, under which the Jehovah’s Witness organization supplied materials and labor for the renovation in exchange for the City’s permission to use the facility for 12.6 years. The City expended \$300,000 for permits, furniture and equipment in connection with the renovation. The following table sets forth convention and delegate attendance since 2002:

**TABLE C-8
City of Long Beach
Convention and Delegate Attendance**

Calendar Year	Number of Conventions	Number of Delegates
2006	226	446,739
2005	235	440,083
2004	218	495,302
2003	187	470,283
2002	125	405,870

Source: Long Beach Convention and Visitors Council

Shoreline Village

Shoreline Village, which has proven to be an integral part of Long Beach visitor offerings, continues an aggressive marketing effort. With the addition of the Yardhouse and the Village Hat Shop, Shoreline is working to provide quality retail, dining and recreation as entertainment experiences for visitors, particularly those who stay at the downtown hotels.

Downtown Long Beach

The Pine Avenue corridor has enjoyed success since the 1995 addition of such retailers as Bath and Body Works, Limited Express, Starbucks and an assortment of restaurants. Additionally, Z Gallerie opened an expanded version of their popular home furnishings store. City Place, an urban retail development in the heart of downtown, covers eight city blocks. City Place contains approximately 450,000 square feet of retail space and 341 residential units. Tenants include Wal-Mart, Albertson's, Sav-on, Nordstrom Rack, Ross Dress For Less and several other apparel stores and eateries. Hoteliers report that the area gives their guests a refreshing option for dining and entertainment alternatives. Pine Avenue's concentration of dining establishments confirms restaurants as the principal element of the area.

Long Beach Towne Center

In November 1998, the development of the Long Beach Towne Center was completed. It is an approximately 850,000 square foot community retail shopping center located on approximately 81 acres within the City at the southwest corner of Carson Street and the I-605 Freeway. The current operator of the Long Beach Towne Center is CREA/PPC Long Beach Towne Center PO, LLC, a Phoenix, Arizona corporation.

Pike at Rainbow Harbor Project

The \$450 million Pike at Rainbow Harbor Project (previously known as the Queensway Bay Project) developed by Developers Diversified Realty Corporation is one of the largest shoreline developments in California history. The Pike at Rainbow Harbor Project includes approximately 500,000 square feet of waterfront retail and entertainment space. The Pike at Rainbow Harbor is a joint venture of public and private investment. The development converted 300 acres of prime oceanfront property at the edge of downtown Long Beach into a major resort. The Pike at Rainbow Harbor Project is substantially complete and includes the Aquarium of the Pacific, Shoreline Park, Rainbow Harbor, the retail portion of the Pike Project and the condominium housing portion of the Pike.

The Rainbow Harbor, named after Long Beach's famous Rainbow Pier from the early part of the twentieth century, offers visitors a wide variety of dinner cruises, fishing and diving charters, and water taxis that shuttle between the downtown entertainment district and the historic Queen Mary oceanliner. The Aquarium of the Pacific is located on a five-acre site within Rainbow Harbor. The Aquarium site is 156,735 square feet and contains exhibits with more than 12,000 ocean animals, representing over 550 species. The Aquarium also contains a theater, learning center, an indoor/outdoor restaurant and a large gift shop.

Petroleum Production

The Wilmington Oil Field, which is one of the largest oil fields in the United States, traverses Long Beach. Since 1939, the City has developed and managed the oil operations on its Upland and Tideland properties. The Upland properties are owned by the City and the revenues can be used for general-purpose activities. The Tideland properties are owned by the City in trust for the State. The

revenues, by legislation, are shared between the City, State, Occidental Petroleum Corp., and Tidelands Oil Production Company and the City's share can only be used in support of tidelands purposes.

Operation of the Wilmington Oil Field is managed by two contractors, Tidelands Oil Production Company and Occidental Petroleum Corp.

The City administers all City oil operations, contracts, leases and agreements and directs all subsidence control operations through its Department of Oil Properties. Recent increases in the price of oil have increased the amount of revenues transferred to the Tidelands Operating Fund and the General Fund.

Transportation

Industry, business and residents all benefit from the excellent transportation network available in the City. Water, rail, air and highway facilities are highly developed throughout the City.

The County's 22-mile light rail line opened July 1, 1990, connecting the central business districts of Long Beach and Los Angeles. Ridership on the "Metro Blue Line" currently averages approximately 66,000 riders per average weekday.

The San Diego Freeway (I-405), the San Gabriel River Freeway (I-605), the Long Beach Freeway (I-710) and the Riverside Freeway (I-91) all traverse the City, as do State Highways 1, 19, 22 and 214. This highway grid places both the City of Los Angeles and Los Angeles International Airport within a 30-minute drive.

The Long Beach Public Transportation Company was incorporated in 1963 as a nonprofit corporation with all capital shares held by the City. Since that time, the company has provided transit service to the City and surrounding areas. The company's operations are locally supported through the Transportation Fund of the City. Interurban bus service is provided by Long Beach Transit, Los Angeles County Metropolitan Transportation Authority and Orange County Regional Transportation District.

Rail transportation to Long Beach is provided by two major transcontinental railroads: the Burlington Northern Santa Fe Railroad Company and the Union Pacific Railroad Company. Reciprocal switching is available between the two lines.

Port of Long Beach

The Port is owned by the City and operated by the Harbor Department, which was created by amendment to the City Charter in 1931. Functioning primarily as a landlord, the Harbor Department leases or assigns most docks, wharves, transit sheds, and terminals to shipping or terminal companies and other private firms for actual operation of these facilities. This Port is one of the most versatile shipping installations in the nation.

The Port covers 11.9 square miles, of which 7.1 square miles is water, and includes all harbor facilities of the City. The Port has 22 miles of waterfront with 65 deep water cargo berths. Container terminals occupy 1,356 acres, auto terminals occupy 182 acres, breakbulk and general cargo occupy 108 acres, dry bulk terminals occupy 100 acres, and petroleum and liquid bulk occupy 52 acres. The Port has seven container terminals with 70 cranes (owned by the Harbor Department and tenants) and three container freight stations. Five container terminals are served by on-dock railyards. Additional cargo handling facilities include five transit sheds and 12 warehouses. Transit sheds are of concrete and steel construction. Wharves are constructed of reinforced concrete supported by reinforced concrete pilings or

sheet pile bulkhead. Wharf aprons at all transit shed berths average 50 feet in width. Rail tracks serve all major marine facilities. In total, the Port owns 82 miles of rail trackage. Current Harbor Department plans envision enlarging and consolidating several of the container terminals due to the demand for larger facilities.

The Port is the first Southern California port to offer dockside rail. Dockside rail helps to move cargo between ships and trains for efficient distribution to markets east of the Rocky Mountains, and removes unnecessary trucks from area freeways.

The Port is self-sufficient. Under the State's Tidelands laws, the Port must earn its revenue from activities related to commerce, navigation, recreation and fisheries, and must spend its money only on the same. The Port receives no tax revenues for its operations or expansions. Although it receives no tax support, the Port generates billions of dollars in revenue for private businesses and government entities, including the City.

In addition to containers, the harbor complex handles crude and refined petroleum products, dry bulk such as coke, and cement; automobiles, lumber, paper and fruit; steel and scrap metal. A free trade zone, Foreign Trade Zone #50, is also operated by the Port.

In 1989, the Port, the Port of Los Angeles (collectively, the "Ports"), the City and the City of Los Angeles formed the Alameda Corridor Joint Powers Authority ("ACTA") to develop and operate a 20-mile long, multiple-track consolidated rail transportation corridor (the "Alameda Corridor") along Alameda Street between the railroad freight yards located in the City of Los Angeles and the Ports in order to efficiently deal with the anticipated increase in volume of international freight, cargo and other goods to and from the Ports. Construction was completed and the Alameda Corridor opened for service in April 2002, at a cost of \$2.4 billion. The Alameda Corridor consolidates 90 miles of existing rail lines (4 current rail lines will be diverted onto 1 line) into an integrated system separated from nonrail traffic.

Long Beach Airport

The City owns and operates the Long Beach Airport, which has five runways varying from 4,200 to 10,000 feet in length. Pursuant to a court-ordered settlement reached in 1989, the current daily flight limits are 41 commercial jet airline and 25 commuter landings and takeoffs ("slots"). Included in the 41 aircraft slots are five cargo flights, operated by Airborne Express, Fed Ex and United Parcel Service. Commercial airline service is provided by Alaska Airlines, American Airlines, America West Airlines, and JetBlue Airways ("JetBlue").

The Long Beach Airport is JetBlue's west coast hub. JetBlue operates 22 of the 41 commercial slots at Long Beach, with direct service to New York City, Washington, D.C., Boston, Ft. Lauderdale, Salt Lake City, Oakland and Las Vegas.

The movement of aircraft in and out of Long Beach Airport is controlled by the Federal Aviation Administration (the "FAA"). The FAA operates the airport's tower and navigation facilities. Navigation aids at the airport include Medium Intensity Approach Lights, Runway Visual Range, Direction Finding, Instrument Landing System, VHF, UHF and other radio communications equipment.

Long Beach Airport is an important aircraft manufacturing and completion center, proudly hosting two industry giants, The Boeing Company and Gulfstream Aerospace Corporation. Between these two firms, thousands of jobs help fuel the local economy. Long Beach Airport is landlord to almost 150 other businesses, mainly in the aviation and aerospace industry.

The following table sets forth operations at the Long Beach Airport during the period 2002ough

TABLE C-9
Long Beach Airport Traffic

Fiscal Year	Passengers	Cargo (lbs.)
2006	2,815,015 ¹	102,303,000
2005	3,027,871 ²	108,470,000
2004	2,941,971 ³	113,419,000
2003	2,757,251 ⁴	115,303,000
2002	1,018,994 ⁵	112,335,000

¹ In Fiscal Year 2006, forty-one air carrier flight slots were allocated: thirty-seven flight slots from four commercial airlines – Alaska, America West, American and JetBlue, and four flight slots from cargo carriers – Airborne Express, Fed Ex and United Parcel Service. In addition, America West operated one commuter flight and Delta/Sky West operated four commuter flight slots, out of the approved twenty-five commuter carrier flight slots. American ceased operations at the Long Beach Airport on April 2, 2006.

² In Fiscal Year 2005, forty-one air carrier flight slots were allocated: thirty-six flight slots from four commercial airlines – Alaska, America West, American and JetBlue, and five flight slots from cargo carriers – Airborne Express, Fed Ex and United Parcel Service. In addition, America West operated three commuter flight, out of the approved twenty-five commuter carrier flight slots.

³ In Fiscal Year 2004, forty-one air carrier flight slots were allocated: thirty-six flight slots from four commercial airlines – Alaska, America West, American and JetBlue, and five flight slots from cargo carriers – Airborne Express, Fed Ex and United Parcel Service. In addition, America West operated three commuter flight, out of the approved twenty-five commuter carrier flight slots.

⁴ The total number of daily flights for JetBlue, American and America West increased from thirty-two to thirty-five. Horizon started operating from the Long Beach Airport in October 2002 with three commuter flights.

⁵ The total number of daily flights for JetBlue, American and Horizon increased from eleven to thirty-two.

Source: City of Long Beach Unaudited Comprehensive Annual Financial Report for Fiscal Year 2005-06

Utilities

In 1931, a Charter amendment was passed which created the Board of Water Commissioners and authorized the City to join the Metropolitan Water District of Southern California. These decisions sought to ensure an adequate water supply for the City. Water and sewer services are provided by the Long Beach Water Department.

There are a number of utilities service providers operating in the City. Local telephone service is provided by Verizon and SBC. Electricity is distributed to the residents, organizations and businesses of Long Beach by Edison International. Electricity can be purchased from a number of electricity providers. Natural gas is provided by the Long Beach Gas and Oil Department.

In November 2000, the voters of the City approved Measure J to reduce the City's utility users tax rate by one percentage point per year, from 10% to 5%, during a five-year period. The current utility users tax rate is 5% for all utilities.

Education

The City is served by the Long Beach Unified School District, which provides primary and secondary educational instruction for approximately 93,500 students through the operation of 54 elementary schools, 23 junior high schools, 14 high schools, including one adult school. There are additionally, four charter schools. Post-secondary education is available at Long Beach City College, a tax-supported two-year institution administered by the Long Beach Community College District. In addition to the lower division college program, extensive adult education and trade school facilities are offered at Long Beach City College with a current enrollment that exceeds 26,000 per semester. California State University - Long Beach is located on a 320-acre site in the eastern portion of the City on land donated by the City. Opened in 1949 as Los Angeles-Orange County State College, the institution has been given university status and has a current enrollment of approximately 33,000 per semester. The University's distinguished educational program offers undergraduate and graduate degree programs. Enrollment in the educational system serving the City and its residents for the past 5 years is set forth below:

TABLE C-10
City of Long Beach
Educational Enrollment

Year	Long Beach Unified School District	Long Beach City College¹	California State University (Long Beach)¹
2006	93,589	26,308	33,344
2005	96,319	25,722	32,756
2004	97,560	28,682	33,363
2003	97,370	32,411	33,745
2002	96,488	29,444	32,693

¹ Average enrollment per semester.

Source: Data furnished by each institution, respectively

The City also serves as the permanent headquarters for the 21-campus California State University and College System. The California University and College System's headquarters are located on a 6.4-acre site in the western portion of the City on land donated by the City. California State University-Long Beach continues to be one of the most popular institutions in California. It has built a successful student recruitment program that continues to attract high-achieving students, while maintaining their historical commitment to access.

Community Facilities

The City has four major community based hospitals and a Veterans Affairs Medical Center. The City operates the Main Library in the downtown Civic Center and eleven other branch libraries throughout the City. Four newspapers, three radio stations and a cable television system are also located in the City.

The City's Parks, Recreation and Marine Department oversees the operation and maintenance of all Long Beach public recreational facilities, including 25 community centers, 55 sports fields for soccer, softball, baseball and flag football, over 50 park playgrounds, 70 tennis courts and five golf courses. The Department also administers the Municipal Band, Leeway Sailing Center, El Dorado Nature Center, Long Beach Museum of Art, Rancho Los Cerritos and Rancho Los Alamitos, the Belmont Veterans Memorial

Pier, Rainbow Harbor and Rainbow Lagoon. The City's Parks, Recreation and Marine Department maintains 100 parks, devoted to open space and recreation, and six miles of beaches. Additionally, the Department operates three marinas with a combined approximately 3,800 boat slips.

The Department provides free and fee-based recreational programs and leisure opportunities, both self-directed and organized, for people of all ages and cultures. Youth programs include free youth sports for ages 5 to 18 serving nearly 10,000 participants annually, summer and vacation day camps, 800 recreational and educational classes, sailing and aquatics instruction, teen center activities, skateboarding opportunities, and supervised after-school and weekend activities at parks, schools, and mobile recreation sites.

Adult recreation opportunities include sports leagues, tennis and golf facilities and instruction, and more than 2,000 recreational and self-improvement classes annually. Recreation programs and social services for seniors are offered at six community centers. A regional Senior Olympics program is also offered. Family recreation opportunities include Long Beach Municipal Band concerts, cultural arts programs, environmental programs, citywide and neighborhood special events, boating facilities, as well as general park and beach use.

The Long Beach Convention and Entertainment Center stages productions of the Long Beach Symphony Association, the Long Beach Grand Opera, the Long Beach Symphony Chorus, the Theater Festival and the Community Concert Association.

APPENDIX D
CERTAIN DEFINITIONS

APPENDIX E

THE SERIES 2007D BONDS AND THE CPI RATE

Definitions

The following definitions apply to the descriptions of the Series 2007D Bonds and the CPI Rate contained in this Official Statement.

“Bloomberg CPURNSA” has the meaning specified under “—Consumer Price Index” below.

“BLS” has the meaning specified under “—Consumer Price Index” below.

“Business Day” means, with respect to the Series 2007D Bonds, a day other than (i) a Saturday and Sunday, (ii) a day on which the Trustee, the Calculation Agent or banks and trust companies in The City of New York are authorized or required to remain closed, or (iii) a day on which the New York Stock Exchange is closed.

“Calculation Agent” means, initially, the Trustee, or its designee, or such other Calculation Agent as may be selected by the Authority or its successors or assigns.

“CPI” has the meaning specified under “—Consumer Price Index” below.

“CPI Rate” has the meaning specified under “—Interest Rate” below.

“Initial Interest Rate” means, for each Series 2007D Bond, the Initial Interest Rate set forth on the inside front cover of this Official Statement.

“Initial Interest Period” means the period from and including the date of the delivery of the Series 2007D Bonds to but excluding the initial Interest Reset Date.

“Series 2007D Interest Payment Date” means 15th day of each month commencing on October 15, 2007. If such 15th day of the month is not a Business Day, then the first Business Day immediately succeeding the 15th day of the month.

“Interest Period” means each period (other than the Initial Interest Period) from and including one Interest Reset Date to but excluding the next Interest Reset Date; provided that the final Interest Period will end on but exclude the maturity date for the Series 2007D Bonds.

“Interest Reset Date” means the fifteen (15th) calendar day of each month, beginning on October 15, 2007.

“Reference Month” means, with respect to an Interest Reset Date, the third calendar month preceding that Interest Reset Date. For example, the Reference Month for the April Interest Reset Date will be January.

“Spread” means for each Series 2007D Bond, the Spread set forth on the inside front cover of this Official Statement.

Consumer Price Index

The amount of interest payable on the Series 2007D Bonds on each Series 2007D Interest Rate Payment Date will be linked to changes in the Consumer Price Index. The Consumer Price Index for purposes of the Series 2007D Bonds is the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (“*CPI*”), published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor (“*BLS*”) and reported on Bloomberg CPURNSA or any successor service (“*Bloomberg CPURNSA*”). The CPI for a particular month is generally released and published during the following month. The CPI is a measure of the average change in consumer prices over time for a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors’ and dentists’ services, and drugs. In calculating the index, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically by the BLS to take into account changes in consumer expenditure patterns. The CPI is expressed in relative terms in relation to a time base reference period for which the level is set at 100.0. The base reference period for the Series 2007D Bonds is the 1982-1984 average.

Interest Rate

The Series 2007D Bonds will bear interest at the Initial Interest Rate during the Initial Interest Period. Thereafter, the Series 2007D Bonds will bear interest at an annual rate (the “*CPI Rate*”) that the Calculation Agent determines as of each Interest Reset Date for the Interest Period beginning on that Interest Reset Date, pursuant to the following formula:

$$[(CPI_t - CPI_{t-12}) / CPI_{t-12}] + \text{Spread}$$

Where:

CPI_t = CPI for the applicable Reference Month; and

CPI_{t-12} = CPI for the twelfth month prior to the applicable Reference Month.

CPI_t for each Interest Reset Date is the CPI for the applicable Reference Month, which is generally released and published in the second calendar month prior to such Interest Reset Date. CPI_{t-12} for each Interest Reset Date is the CPI for the twelfth month prior to the applicable Reference Month, which is generally released and published in the eleventh month prior to the applicable Reference Month. For example, for the April Interest Period, CPI_t will be the CPI for January 2006 and CPI_{t-12} will be the CPI for January 2005. The CPI for January 2006 was published by BLS and reported on Bloomberg CPURNSA in February 2006 and the CPI for January 2005 was published and reported in February 2005. For more information regarding the calculation of interest rates on the Series 2007D Bonds, including historical CPI levels and hypothetical interest rates, see “—Hypothetical Interest Rate Calculations” below.

As described under “—Risk Factors Relating to the Series 2007D Bonds” below, movements in the CPI that have occurred in the past are not necessarily indicative of changes that may occur in the future. Actual changes in the CPI may be less than or greater than those that have occurred in the past.

The amount of interest accruing on the Series 2007D Bonds during the Initial Interest Period and each Interest Period will be computed on the basis of a 360-day year of twelve 30 day calendar months and will be payable in arrears on the Series 2007D Interest Rate Payment Date for the Initial Interest

Period and each Interest Period to the owners thereof as of the applicable Record Date. If, for any Interest Period, the CPI Rate is zero or a negative number, the interest rate for the Series 2007D Bonds for that Interest Period will be 0%. All calculations and determinations by the Calculation Agent will be final, absent manifest error.

At or prior to 12:00 noon, New York City time, on each Interest Reset Date (or, if such Interest Reset Date is not a Business Day, on the next succeeding Business Day), the Calculation Agent will calculate the CPI Rate applicable to that Interest Reset Date and supply to the Trustee (provided the Trustee is not the Calculation Agent) and the Issuer the CPI Rate so determined in writing or by electronic communication promptly confirmed in writing. As noted, the calculation of the CPI Rate by the Calculation Agent will be final and conclusive and binding on the Trustee and the Issuer and the holders of the Series 2007D Bonds absent manifest error.

If the CPI for a Reference Month is not reported on Bloomberg CPURNSA for a particular month by 11:00 a.m., New York City time, on an Interest Reset Date, but the CPI has otherwise been published by the BLS, the Calculation Agent will determine the CPI as published by the BLS for such month using a source it deems to be accurate and appropriate. If the CPI is not published by the BLS for a particular month by 11:00 a.m., New York City time, on an Interest Reset Date, the Calculation Agent will determine the CPI with reference to an index number based on the last twelve-month change in the CPI available and announced by the Department of Treasury for its Inflation-Indexed Securities as described at 62 Federal Register 846-874 (January 6, 1997) (the “*Treasury Inflation-Indexed Securities Regulation*”) or, if no such index number is announced, in accordance with general market practice at the time.

In calculating CPI_t and CPI_{t-12} , the Calculation Agent will use the most recently available value of the CPI determined as described above on the applicable Interest Reset Date, even if such value has been adjusted from a prior reported value for the relevant month. However, if a value of CPI_t and CPI_{t-12} used by the Calculation Agent on any Interest Reset Date to determine the interest rate on the Series 2007D Bonds (an “*Initial CPI Value*”) is subsequently revised by the BLS, the Calculation Agent will continue to use the Initial CPI Value for all purposes hereunder, and the interest rate for the related Interest Period, as determined based upon the Initial CPI Value, will not be revised.

If the CPI is rebased to a different year or period, the base reference period for the Series 2007D Bonds will continue to be the 1982-1984 reference period as long as the 1982-1984 CPI continues to be published.

If, while the Series 2007D Bonds are outstanding, the CPI is discontinued or substantially altered, as determined in the sole discretion of the Calculation Agent, the Calculation Agent will determine the CPI Rate with reference to an applicable substitute index chosen by the Secretary of the Treasury for the Department of Treasury’s Inflation-Indexed Securities as described in the Treasury Inflation-Indexed Securities Regulation or, if no such securities are outstanding or no such substitute index is chosen, in accordance with general market practice at the time.

There will be no adjustment to the principal amount of the Series 2007D Bonds at maturity or at any other time during the term of the Series 2007D Bonds. The amount that holders of the Series 2007D Bonds will receive at maturity is equal to the principal amount of Series 2007D Bonds purchased by such holders.

Rounding

All values used in the interest rate formula for the Series 2007D Bonds will be truncated to six decimal places and rounded to the nearest fifth decimal place (one-one hundred thousandth of a percentage point), rounding upwards if the sixth decimal place is five or greater (e.g., 9.876555% (or .09876555) would be rounded up to 9.87656% (or .0987656) and 9.876554% (or .09876554) would be rounded down to 9.87655% (or .0987655)). All percentages resulting from any calculation of the interest rate will be truncated to four decimal places and rounded to the nearest third decimal place (one thousandth of a percentage point), rounding upwards if the fourth decimal place is five or greater (e.g., 9.8765% (or .098765) would be rounded up to 9.877% (or .09877) and 9.8764% (or .098764) would be rounded down to 9.876% (or .09876)). All dollar amounts used in or resulting from such calculation on the Series 2007D Bonds will be rounded to the nearest cent (with one-half cent being rounded upward).

Hypothetical Interest Rate Calculations

By way of example, the following illustrates the way in which the CPI Rate would be calculated on the Series 2007D Bonds. Based upon the above table, the hypothetical annual interest rate that would have been payable on the Series 2007D Bonds for the April 2003 Interest Period is 3.197%. This hypothetical interest rate is calculated by inserting the following CPI levels into the interest rate formula described under “—Interest Rate” above and using the hypothetical Spread of 0.60%:

$CPI_t = 181.7$, which is equal to the CPI level for January 2003, which as the third calendar month prior to the Interest Reset Date of April 15, 2003, would be the Reference Month; and

$CPI_{t-12} = 177.1$, which is equal to the CPI level for January 2002, the twelfth calendar month prior to the Reference Month for the Interest Reset Date of April 15, 2003,

$$\begin{aligned} \text{as follows: } 3.197\% &= (181.7 - 177.1) / 177.1 + 0.60\% \\ &= 2.597402\% + 0.60\% \\ &= 3.197402\% \text{ (truncated to six decimal places)} \\ &= 3.19740\% \text{ (rounded to five decimal places)} \\ &= 3.1974\% \text{ (truncated to four decimal places)} \\ &= 3.197\% \text{ (rounded to three decimal places)} \end{aligned}$$

The numbers in the foregoing example are given for illustration and information purposes only. The historical levels of the CPI should not be taken as an indication of future levels of the CPI, and no assurance can be given as to the level of the CPI for any Reference Month. The Spread in the example is not the Spread applicable to the Series 2007D Bonds.

Risk Factors Relating to the Series 2007D Bonds

An investment in the Series 2007D Bonds involves risks not associated with an investment in ordinary floating rate securities, which prospective investors should consider before purchasing the Series 2007D Bonds. See also “CERTAIN BONDHOLDERS’ RISKS” in the forepart of this Official Statement.

The interest rate on the Series 2007D Bonds may be less than the Spread and, in some cases, could be zero.

The CPI Rate, which represents the interest payable on the Series 2007D Bonds during any Interest Period, is calculated based upon year over year changes in the level of the CPI, plus the Spread, determined monthly over the term of the Series 2007D Bonds.

If the CPI for the same month in successive years does not increase, which is likely to occur when there is little or no inflation, investors in the Series 2007D Bonds will receive an interest payment for the applicable Interest Period equal to the Spread. If the CPI for the same month in successive years decreases, which is likely to occur in periods of deflation, investors in the Series 2007D Bonds will receive an interest payment for the applicable Interest Period that is less than the Spread. If the CPI for the same month in successive years declines by a percentage equal to or greater than the Spread, the CPI Rate will equal zero for the related Interest Period and investors in the Series 2007D Bonds will receive no interest payment on the corresponding Series 2007D Interest Rate Payment Date.

The interest rate is based upon the CPI. The CPI itself and the way BLS calculates the CPI may change in the future.

An investment in securities with interest determined by reference to an inflation index involves factors independent of the creditworthiness of the Gas Enterprise or otherwise not associated with an investment in securities with interest determined by reference to a fixed rate, floating rate or other index-linked rate. Such factors may include, without limitation, the volatility of the CPI, the amount of other securities linked to the CPI, the level, direction and volatility of the market interest rates generally, the possibility that the CPI may be subject to significant changes, that changes in the CPI may or may not correlate to changes in interest rates generally or with changes in other indices and that the resulting interest may be greater or less than that payable on other securities of similar maturities.

In addition, the value of the CPI may depend on a number of factors, including economic, financial and political events over which neither the Authority nor the City has any control. The historical experience of the CPI should not be taken as an indication of its performance during the term of the Series 2007D Bonds. While the CPI measures changes for prices in goods and services, movements in the CPI that have occurred in the past are not necessarily indicative of changes that may occur in the future.

Further, there can be no assurance that the BLS will not change the method by which it calculates the CPI. Changes may also occur in the way CPI is calculated, which could reduce the level of the CPI and lower the interest payment with respect to the Series 2007D Bonds. Accordingly, the amount of interest, if any, payable on the Series 2007D Bonds, and therefore the value of the Series 2007D Bonds, may be significantly reduced. If the CPI is discontinued or substantially altered, a substitute index may be employed to calculate the interest payable on the Series 2007D Bonds, as described above, and that substitution may adversely affect the value of the Series 2007D Bonds.

The historical levels of the CPI are not an indication of the future levels of the CPI during the term of the Series 2007D Bonds. The CPI has experienced periods of volatility in the past and such volatility may occur in the future. On the other hand, fluctuations and trends in the CPI that may have been observed in the past are not necessarily predictive of fluctuations and trends that may occur in the future.

The CPI Rate is based upon historical CPI changes and may not reflect the most recent changes in the CPI.

The calculation methodology for determining CPI incorporates an approximate three-month lag. This timing lag may have an impact on the trading price of the Series 2007D Bonds, particularly during periods of significant, rapid changes in the CPI.

APPENDIX F
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Agreement") is hereby entered into, executed and delivered by the Long Beach Bond Finance Authority (the "Authority") and the City of Long Beach, California (the "City") in connection with the issuance of the Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007A (the "Series 2007A Bonds"), the Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007B (the "Series 2007B Bonds"), the Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007C (the "Series 2007C Bonds") and the Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007D (the "Series 2007D Bonds," and together with the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds, the "Bonds"). The Bonds will be issued pursuant to an Trust Indenture, dated as of September 1, 2007 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee").

In consideration of the purchase of the Bonds by the Participating Underwriter (as defined below), the Authority and the City hereby covenant and agree as follows:

Section 1. Purpose of the Agreement. This Agreement is being executed and delivered by the Authority and the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Agreement.

"Beneficial Owner" means any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" means the City, or any successor Dissemination Agent designated in writing by the Authority and the City and which has filed with the Authority and the City a written acceptance of such designation.

"Holders" means either the registered owners of the Bonds, or if the bonds are registered in the name of The Depository Trust Company or other recognized securities depository, any applicable participant in its depository system.

"Listed Events" means any of the events listed in Section 5(a) of this Agreement.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories approved by the Securities and Exchange Commission can be found at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“*Official Statement*” means the Official Statement, dated _____, 2007, prepared and distributed in connection with the initial sale of the Bonds.

“*Participating Underwriter*” means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“*Repository*” means each National Repository and each State Repository.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*State*” means the State of California.

“*State Repository*” means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall provide, or shall cause the Dissemination Agent to provide, to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Agreement by not later than 180 days after the end of the City’s fiscal year. The City’s first Annual Report shall be due March 29, 2008. Not later than 15 Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Agreement. The audited financial statements of the Gas Enterprise Fund of the City may be submitted separately from the balance of the Annual Report if they are not available by the date of submission. If the City’s fiscal year changes, the City, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City is unable to provide to the Repositories or the Dissemination Agent, an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board (the “MSRB”) and to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each Repository; and

(ii) confirm in writing to the City that the Annual Report has been filed as required hereunder, stating the date filed and listing the Repositories to which the Annual Report was filed.

Section 4. Content of Annual Reports.

(a) The City's Annual Report shall contain or incorporate by reference the following, updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Bonds, unless otherwise noted):

(i) Audited financial statements of the Gas Enterprise Fund of the City, updated to incorporate information for the most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, and as further modified according to applicable State law. If the audited financial statements of the Gas Enterprise Fund of the City are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the usual format utilized by the City, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

(ii) [additional info to come]

(b) All or any portion of the information of the Annual Report may be incorporated in the Annual Report by cross reference to any other documents which have been filed with (i) each Repository and, if the document is an official statement, the MSRB or (ii) the Securities and Exchange Commission.

(c) Information contained in an Annual Report for any fiscal year containing any-modified operating data or financial information (as contemplated by Section 8 hereof) for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following Listed Events, if material:

- (i) principal and interest payment delinquencies;
- (ii) nonpayment related defaults;
- (iii) modifications to rights of bondholders;
- (iv) optional, contingent or unscheduled bond calls;

- (v) defeasances;
 - (vi) rating changes;
 - (vii) adverse tax opinions or events affecting the tax exempt status of the Bonds;
 - (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
 - (ix) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (x) substitution of the credit or liquidity providers or their failure to perform;
- and
- (xi) release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever a Listed Event occurs with respect to the Bonds, the Authority shall as soon as possible, but in no event more than ten (10) days following such event, determine if such event would be material under applicable federal securities laws.

(c) If the Authority determines that a Listed Event would be material under applicable federal securities laws, the Authority shall promptly provide written notice of such occurrence to the Dissemination Agent or to the Municipal Securities Rulemaking Board, the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The Authority's and the City's obligations under this Agreement shall terminate upon the legal defeasance, prior redemption or payment of amounts fully sufficient to pay and discharge the Bonds, or upon delivery to the Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. From time to time, the Authority and the City may appoint or engage a Dissemination Agent to assist them in carrying out their obligations under this Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall be entitled to reasonable compensation for its services hereunder and reimbursement of its out of pocket expenses (including, but not limited to, attorneys' fees). The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority or the City pursuant to this Agreement. The City shall be the initial Dissemination Agent.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Agreement, the Authority and the City may amend this Agreement, and any provision of this Agreement may be waived, provided that all of the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal

(including regulatory) requirements, change in law (including rules or regulations) or in interpretations thereof, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Agreement, the Authority and/or the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Agreement shall be deemed to prevent the Authority or the City from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Authority or the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Agreement, the Authority and/or the City, as applicable, shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Authority or the City to comply with any provision of this Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority or the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Agreement in the event of any failure of the Authority or the City or the Dissemination Agent to comply with this Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are expressly and specifically set forth in this Agreement, and the Authority and the City agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any claims, losses, expenses and liabilities which such Dissemination Agent may incur arising out of or in the exercise or performance of the powers and duties given to the Dissemination Agent hereunder, including the costs and expenses (including attorneys' fees) of defending, in any manner or forum, against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct, subject to the Indenture. The obligations of the

Authority and the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Agreement shall inure solely to the benefit of the Authority, the City, the Dissemination Agent, the Participating Underwriter, the Holders and the Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 13. Filing With Central Post Office. Any filing under this Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Date: _____, 2007

LONG BEACH BOND FINANCE AUTHORITY

By _____
Name _____
Title _____

CITY OF LONG BEACH, CALIFORNIA

By _____
Name _____
Title _____

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
AND THE REPOSITORIES
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Long Beach Bond Finance Authority

Name of Obligated Party: City of Long Beach

Name of Bond Issue: Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007A

Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007B

Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007C

Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds, Series 2007D

Date of Issuance: _____, 2007

CUSIP: 54240T__

NOTICE IS HEREBY GIVEN that the City of Long Beach (the "City") has not provided an Annual Report with respect to the above named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated _____, 2007 executed by the Long Beach Bond Finance Authority and the City for the benefit of the holders and beneficial owners of the above referenced Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF LONG BEACH, CALIFORNIA

By _____
Authorized Representative

APPENDIX H

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Long Beach Bond Finance Authority
Long Beach, California 90802

Re: Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds
Series 2007A, Series 2007B, Series 2007C and Series 2007D
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Long Beach Bond Finance Authority (the "Authority") in connection with the issuance of \$_____ aggregate principal amount of its Natural Gas Purchase Revenue Bonds, Series 2007A, Series 2007B, Series 2007C and Series 2007D (the "Bonds"), issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of September 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Prepaid Natural Gas and Sale Agreement (the "Prepaid Gas Agreement"), dated as of September __, 2007 between the Authority and Merrill Lynch Commodities, Inc., the Natural Gas Supply Agreement (the "Supply Agreement"), dated as of September __, 2007 between the Authority and the City of Long Beach (the "Municipality"), the Tax Certificate and Agreement, dated the date hereof, relating to the Bonds (the "Tax Agreement"), certificates of the Authority, the Municipality, the Trustee and others, opinions of counsel to the Authority, the Municipality, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Prepaid Gas

Agreement, the Supply Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy of the description contained therein of, or the remedies available to enforce liens on, any of such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal and Redemption Price of and interest on the Bonds, of the Trust Estate, which pledge is subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein.
3. The Bonds are not payable from or secured by a pledge of or lien on any property of the Authority or any of its income or receipts except the Trust Estate pledged therefor pursuant to the Indenture. Neither the faith and credit nor the taxing power of the State of California, the Authority, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds, and the issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State of California or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State of California or any public agency, including the Municipality, other than the special obligation of the Authority as provided in the Indenture.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX I

SCHEDULE OF DAILY CONTRACT QUANTITIES

Month	Daily Contract Quantity (MMBtu/Day)*
January	29,065
February	36,107
March	27,416
April	22,776
May	19,746
June	18,068
July	16,473
August	15,485
September	17,859
October	19,486
November	29,304
December	33,439

* Preliminary; subject to change.

APPENDIX J

SCHEDULE OF AMORTIZED VALUES OF SERIES 2007A BONDS

APPENDIX K
SCHEDULE OF TERMINATION PAYMENTS

APPENDIX L

BOOK-ENTRY-ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the caption “—General” below has been provided by DTC. None of the Authority, the City or the Underwriter makes any representation as to the accuracy or the completeness of such information. The Beneficial Owners of the Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF THE AUTHORITY, THE CITY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE TO THE OWNERS OF THE BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Bonds will be delivered in book-entry only form. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of securities transactions in deposited securities through electronic computerized transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of DTC's Direct Participants and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants,” and together with Direct

Participants, the "DTC Participants"). DTC has Standard and Poor's Ratings Services' highest rating: AAA. The Rules applicable to DTC and the DTC Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org. Neither the Authority nor the City undertakes any responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC's website as described in the preceding sentence, including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Bonds of a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to the redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC or the

Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but neither the Authority nor the City undertakes any responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

1 RESOLUTION NO.

2
3 A RESOLUTION OF THE CITY COUNCIL OF THE
4 CITY OF LONG BEACH AUTHORIZING AND APPROVING
5 THE ISSUANCE OF BONDS BY THE LONG BEACH BOND
6 FINANCE AUTHORITY; AUTHORIZING AND APPROVING
7 CONTRACTS, AGREEMENTS AND OTHER DOCUMENTS
8 AND ACTIONS RELATING THERETO, AND DELEGATING
9 AUTHORITY TO OFFICERS IN CONNECTION THEREWITH
10

11 WHEREAS, the City of Long Beach (the "City") is a municipal corporation
12 and charter city duly organized and existing under its charter (the "Charter") and the
13 Constitution of the State of California (the "State"); and

14 WHEREAS, it is necessary and desirable and furthers the public interest to
15 acquire a long-term supply of natural gas which will result in significant redirection in
16 effective user chargers and more efficient delivery of city gas services to residential and
17 commercial development; and

18 WHEREAS, the Long Beach Bond Finance Authority (the "Authority") has
19 been established as a separate entity under the California Joint Exercise of Powers Act
20 for the purpose, among others, of assisting the City in connection with any financing to be
21 undertaken by the City; and

22 WHEREAS, the City proposes to enter into a Natural Gas Supply
23 Agreement in the form presented to the City Council (the "Supply Agreement"), between
24 the City and the Authority; and

25 WHEREAS, in connection with the sale of the Authority's Bonds, the
26 Authority will distribute a Preliminary Official Statement which will be substantially in the
27 form presented to the City Council (the "Preliminary Official Statement"), and will
28 distribute a final Official Statement (the "Official Statement") which will be substantially in

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 the form of the Preliminary Official Statement, as distributed, with the terms of the Bonds
2 inserted; and

3 WHEREAS, certain information concerning the City will be contained in the
4 Preliminary Official Statement and the final Official Statement; and

5 WHEREAS, under the Supply Agreement the City has agreed to make
6 available certain financial and operating information as provided in the Continuing
7 Disclosure Agreement in the form attached to the Preliminary Official Statement as
8 Appendix G (the "Continuing Disclosure Agreement"); and

9 WHEREAS, the City has determined that it is to the City's advantage and in
10 the public interest of the inhabitants of the City, to enter into the Supply Agreement and
11 the Continuing Disclosure Agreement;

12 NOW, THEREFORE, the City Council of the City of Long Beach resolves as
13 follows:

14 Section 1. Findings and Determinations. The City Council hereby finds
15 and determines that the foregoing recitals are true and correct.

16 Section 2. Approval of Authority Financing. The City Council hereby
17 approves the issuance by the Authority of not to exceed \$1,300,000,000 principal amount
18 of Natural Gas Purchase Revenue Bonds in one or more series (collectively, the
19 "Bonds").

20 Section 3. Approval of Supply Agreement. The Supply Agreement, in
21 substantially the form presented to the City Council, is hereby approved. The Mayor, City
22 Manager, Director of Financial Management, and Treasurer, and any Acting Director of
23 Financial Management or Acting Treasurer (the "Designated Officers"), each acting
24 singly, is hereby authorized to execute and deliver to the Authority, the Supply
25 Agreement in the name of and on behalf of the City, in substantially the form presented to
26 the City Council, with such changes, insertions and deletions (subject to the provisions of
27 the next sentence) as may be approved by the Designated Officers executing the Supply
28 Agreement, said execution being conclusive evidence of such approval, and the City

1 Clerk is hereby authorized to attest thereto. The term of the Supply Agreement shall not
2 extend beyond November 15, 2037; the amount of the natural gas originally scheduled to
3 be purchased under the Supply Agreement shall not be more than 265 billion cubic feet;
4 and the Contract Price for natural gas delivered under the Supply Agreement in any
5 Delivery Month shall not exceed the Index Price per MMBtu for such Delivery Month less
6 a discount not less than \$0.25.

7 Section 4. Approval of Official Statement. The City Council hereby
8 approves the information concerning the City contained in the form of the Preliminary
9 Official Statement presented to the City Council (the "City Information"). Each of the
10 Designated Officers, acting singly, is hereby authorized to approve, in the name of and
11 on behalf of the City, any changes to the City Information deemed necessary or
12 appropriate by such Designated Officer. The City Council hereby authorizes the inclusion
13 of the City Information, as changed pursuant to this Section, in the Preliminary Official
14 Statement and the final Official Statement and to deem such information final for
15 purposes of Rule 15c2-12 of the Securities and Exchange Commission.

16 Section 5. Approval of Continuing Disclosure Agreement. The
17 Continuing Disclosure Agreement, in substantially the form attached to the Preliminary
18 Official Statement as Appendix G, is hereby approved. Each of the Designated Officers,
19 acting singly, is hereby authorized to execute and deliver to the Trustee, the Continuing
20 Disclosure Agreement in the name of and on behalf of the City in substantially the form
21 attached to the Preliminary Official Statement as Appendix G, with such changes,
22 insertions and deletions as may be approved by the Designated Officer executing such
23 Continuing Disclosure Agreement, said execution being conclusive evidence of such
24 approval, and the City Clerk is hereby authorized to attest thereto.

25 Section 6. Official Actions. The Designated Officers, the City Clerk and
26 any and all other officers of the City are hereby authorized and directed, for and in the
27 name and on behalf of the City, to do any and all things and take any and all actions,
28 including execution and delivery of any and all documents and certificates which they, or

OFFICE OF THE CITY ATTORNEY
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1 any of them, may deem necessary or advisable in order to consummate the transactions
2 contemplated herein and perform the obligations of the City under any of the documents
3 authorized herein.

4 Section 7. Capitalized terms used herein and not otherwise defined shall
5 have the meanings given such terms in the form of the Supply Agreement attached
6 hereto.

7 Section 8. This resolution shall take effect immediately upon its adoption
8 by the City Council, and the City Clerk shall certify the vote adopting this resolution.

9 I hereby certify that the foregoing resolution was adopted by the City
10 Council of the City of Long Beach at its meeting of _____, 2007, by the
11 following vote:

12	Ayes:	Councilmembers:	_____
13			_____
14			_____
15			_____
16	Noes:	Councilmembers:	_____
17			_____
18	Absent:	Councilmembers:	_____
19			_____
20			_____
21			_____
22			_____
23			_____
24			_____
25			_____
26			_____
27			_____
28			_____

City Clerk

HAM:fl
8/16/07
#07-03967