



June 21, 2016

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California**RECOMMENDATION:**

Authorize the City Manager to execute a North American Energy Standards Board (NAESB) contract between the City of Long Beach and the City of Vernon for the purchase and sale of natural gas. (Citywide)

DISCUSSION

The Long Beach Gas and Oil Department (LBGO) operates a City-owned natural gas utility, serving approximately 150,000 customers primarily in the cities of Long Beach and Signal Hill. In 2007, the Long Beach Bond Finance Authority issued Natural Gas Purchase Revenue Bonds to acquire a long-term supply of natural gas for customers of LBGO at a fixed discount to a monthly market index price over a 30-year period. The City of Vernon (Vernon) executed a similar prepaid natural gas supply agreement to benefit their customers. Natural gas supplied under both agreements must be utilized for a qualifying use, essentially consumed by retail gas or electricity generating customers of a municipal utility, to maintain the tax-exempt status of the bonds issued pursuant to Internal Revenue Service (I.R.S.) regulations.

From time to time, either the City of Vernon or LBGO may have the need to sell excess prepaid gas that cannot be utilized or stored. A NAESB contract with Vernon will provide LBGO the opportunity to purchase excess natural gas from Vernon at a discount to market price, or offer excess natural gas to Vernon at a similar discount, while meeting I.R.S. qualified use requirements. Under the NAESB contract, it is expected that LBGO will be a net buyer of excess natural gas from Vernon due to LBGO's current demand for prepaid natural gas. Any savings realized from this agreement will depend on the discounts to market price offered by Vernon and the net volumes purchased by LBGO.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on May 25, 2016 and by Revenue Management Officer Julissa José-Murray on June 2, 2016.

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TIMING CONSIDERATIONS

City Council action is requested on June 21, 2016, to expand the options available to LBGO to efficiently manage the purchase and sale of natural gas for the benefit of its customers.

FISCAL IMPACT

Funds required for this agreement are budgeted in the Gas Fund (EF 301) in the Long Beach Gas and Oil Department (GO). A minimal net savings to the Gas Fund is expected under this agreement, but the extent of the impact is unknown as it is dependent upon the timing, volumes of natural gas, and size of discounts offered and purchased. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

Leon A. Fort for Bob Dowell

ROBERT DOWELL
DIRECTOR OF LONG BEACH GAS AND OIL

RD:LAF:djb

APPROVED:



PATRICK H. WEST
CITY MANAGER