

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

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January 18, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Interim Agreement for Sale of Tidelands Dry Gas to the Long Beach Unit Power Plant (Districts 1 and 2)

DISCUSSION

The City of Long Beach (City), as the Long Beach Unit Operator, and through the Long Beach Energy Department (LBE), is currently purchasing Long Beach Unit (LBU) tidelands dry gas available for sale pursuant to the terms of the 2003 Long Beach Tidelands Dry Gas Price Agreement between the City and the California State Lands Commission (State).

The LBU tidelands dry gas currently is delivered to LBE by Thums Long Beach Company (THUMSCO), agent for the Field Contractor, Oxy Long Beach, Inc. (OLBI), which operates a plant for processing tidelands gas, pursuant to the Natural Gas Delivery Agreement for Locally Produced Gas dated November 4, 1997 (Delivery Agreement). The industry standard for the maximum percentage of carbon dioxide (CO₂) in delivered dry gas, and the standard required by LBE, is 3 percent. The Delivery Agreement, however, granted THUMSCO a variance from the standard that increased the maximum percentage of CO₂ in gas delivered by THUMSCO to 5 percent.

In a letter dated July 1, 2004, LBE gave notice to THUMSCO that effective January 31, 2005, it would terminate the Delivery Agreement until THUMSCO could deliver tidelands dry gas with a CO₂ content not exceeding 3 percent.

THUMSCO's gas processing plant has no facilities for removing CO₂ from the produced gas. Installation of facilities for the removal of CO₂ will be costly and will take a substantial amount of time. In the meantime, THUMSCO needs a place to deliver the tidelands dry gas after the Delivery Agreement with LBE terminates. THUMSCO operates a power plant that uses the dry gas when the cost of operating the power plant is economically feasible due to gas prices and electrical grid costs. It is therefore proposed that all of the produced gas be used to fuel the power plant on an interim basis.

An interim agreement starting on February 1, 2005 must be in place to allow for a modified pricing schedule of tidelands produced gas to be used in the power plant. Both the State and OLBI have approved the interim agreement.

This item was reviewed by Deputy City Attorney J. Charles Parkin on January 4, 2005 and Budget Bureau Officer David Wodynski on January 7, 2005.

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TIMING CONSIDERATIONS

City Council action on this matter is requested on January 18, 2005, as an interim agreement providing for the disposition of the gas must be in place prior to January 31, 2005, when the current gas Delivery Agreement expires.


FISCAL IMPACT

There is no net fiscal impact to the City's funds. Under the terms of the Power Plant Gas Usage Agreement dated November 15, 2001 between OLBI, THUMSCO, the City and the State, THUMSCO must pay to the City a Gas Make Whole Payment for the gas that it does not deliver to the City but uses as fuel for the power plant.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to execute the Interim Agreement for Sale of Tidelands Dry Gas to the Long Beach Unit Power Plant between the City of Long Beach, as Long Beach Unit Operator, Oxy Long Beach, Inc., as Field Contractor, Thums Long Beach Company, as Agent for the Field Contractor, and the California State Lands Commission. The agreement will commence on February 1, 2005, and shall continue until sixty (60) days after THUMSCO or the State gives written notice to the other of its desire to terminate deliveries.

Respectfully submitted,


CHRISTOPHER J. GARNER

DIRECTOR OF OIL PROPERTIES

CJG:SCS
LEG 636.009

APPROVED:


GERALD R. MILLER
CITY MANAGER