



May 11, 2010

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to execute the 2<sup>nd</sup> amendment to the Prepaid Natural Gas Purchase and Sale Agreement dated September 13, 2007, by and between Long Beach Bond Finance Authority and the City of Long Beach, to allow for alternative natural gas delivery points, balancing of prepaid gas delivered into the Long Beach Gas and Oil system from additional gas suppliers, and to stipulate that any failure to deliver prepaid gas as a result of non-performance under certain Physical Natural Gas Transaction Confirmations or Base Contract for Sale and Purchase of Natural Gas Agreement, shall not constitute an authority delivery default. (Citywide)

**DISCUSSION**

The Long Beach Gas and Oil Department (LBGO) maintains agreements with Thums Long Beach Company (Thums), to purchase locally-produced gas (Local Gas), which is a standard by-product of oil production. Thums oversees the production and delivery of an additional source of Local Gas, which, due to gas quality issues, has not entered LBGO's natural gas pipeline system for four years. With the completion of the construction of an Amine Plant, this additional source of Local Gas will be cleansed of the impurities and pipeline quality natural gas will be available for acceptance and purchase by LBGO.

In November 2007, the Long Beach Bond Finance Authority issued Natural Gas Purchase Revenue Bonds to finance the prepayment of a 30-year supply of natural gas for LBGO to Merrill Lynch Commodities, Inc. (Merrill Lynch). The supply of prepay natural gas into LBGO's gas system allows limited volume space for Local Gas. With the construction of the Thums Amine Plant, Thums is requesting to supply additional volumes of Local Gas into LBGO's gas system. Merrill Lynch has agreed to purchase part of the Local Gas volumes from Thums and will then sell "like volumes of" gas to LBGO under the terms of the prepay agreement. The proposed amendment to the prepay agreement allows for alternative natural gas delivery points, additional gas suppliers to help balance the gas system, and to ensure that any failure to deliver

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prepaid gas as a result of non-performance by certain Physical Natural Gas Transaction Confirmations or Base Contract for Sale and Purchase of Natural Gas shall not constitute an authority delivery default under the existing contract.

This matter was reviewed by Deputy City Attorney Richard Anthony on April 12, 2010 and by Budget and Performance Management Bureau Manager David Wodynski on April 19, 2010.

TIMING CONSIDERATIONS

City Council action is requested on May 11, 2010, to obtain financial and operational benefits at the earliest opportunity.

FISCAL IMPACT

The purchase of additional natural gas from Thums via the Prepaid Natural Gas Purchase and Sale Agreement will provide the commodity at a reduced cost from that directly available from Thums. The exact level of savings is dependent on many factors, including market prices for natural gas and actual production volumes. This action will have no job impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



*for* CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:CPH:lld

APPROVED:



PATRICK H. WEST  
CITY MANAGER