



CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

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GERALD R. MILLER
CITY MANAGER

May 24, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to formally terminate negotiations with Sound Energy Solutions (SES/Mitsubishi) regarding a long-term natural gas supply and the feasibility of constructing and operating interconnecting gas pipelines to the proposed liquefied natural gas (LNG) facility, per the Memorandum of Understanding approved by City Council on May 13, 2003; or continue the current suspension of such negotiations; or authorize the City Manager to resume such negotiations. (Citywide)

DISCUSSION

On May 13, 2003, the City Council authorized "the City Manager to execute a Memorandum of Understanding (MOU) with Sound Energy Solutions (SES/Mitsubishi) for the purpose of discussions about a future long-term gas contract and the feasibility and development, financing, construction, operation and maintenance of gas pipelines to the proposed LNG facility." The Port of Long Beach also has its own MOU with SES/Mitsubishi that provides that "Concurrent with any final agreement with the Port of Long Beach, SES will enter into an arrangement for the benefit of the citizens of Long Beach, the Long Beach Energy Department, and the Port of Long Beach to provide liquid natural gas/natural gas." Therefore, no final agreement with the Port will occur under the Port's existing MOU unless SES successfully concludes negotiations on the two issues discussed in Long Beach Energy's MOU approved by the City Council.

Shortly after the City Council's authorization, negotiations on gas supply and the pipelines did commence between Long Beach Energy and SES/Mitsubishi. However, while the general business term concepts were discussed, no agreement with specific terms has been reached and Long Beach Energy and SES/Mitsubishi long ago suspended negotiations. The dormant status of negotiations has been communicated to the City Council both publicly and privately on several occasions over the past year.

Recently, the SES/Mitsubishi LNG project has gained significant additional attention. This is due primarily to proposed controversial federal legislation, which would grant the

federal government virtually complete federal siting and regulatory authority with regard to any proposed LNG terminal, all at the expense of state and local law. This is especially significant in light of local concerns relating to public safety and the financial impacts associated with mitigating potential hazards. These issues were discussed in some detail at the recent LNG public forum hosted by the City Council and at the April 22, 2005, meeting of the Federal Legislation and Environmental Affairs Committee.

Because of the foregoing, the City Manager and City Attorney request that the City Council provide policy direction with regard to the continuation or termination of negotiations with SES/Mitsubishi.

TIMING CONSIDERATIONS

Policy direction from the City Council is requested as soon as possible to assist staff in communicating the City's position.

FISCAL IMPACT

Existing policy allows for 100% of the direct financial benefit from any discounted natural gas supply contract to be passed through directly to Long Beach Energy's customers. Revenue associated with the interconnecting pipeline would be deposited in the Gas Revenue Fund (EF) in the Long Beach Energy Department (EN) or and/or in the General Fund (GP) in the Department of Financial Management.

The fiscal impact of public safety costs to be incurred by the City if the LNG plant is sited in Long Beach not not been determined but is potentially substantial.

SUGGESTED ACTION:

Approve one of the three recommended actions.

Respectfully submitted,



GERALD R. MILLER
CITY MANAGER



ROBERT E. SHANNON
CITY ATTORNEY

GRM:RES:CJG:lld