



March 21, 2017

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute the 2017 Long Beach Tidelands Dry Gas Agreement with the California State Lands Commission for the wholesale market value of the Tidelands dry gas. (Citywide)

DISCUSSION

Pursuant to State law in Chapter 29, Statutes of 1956, First Extraordinary Session, the City of Long Beach (City) shall receive into its gas system all Long Beach Tidelands (Tidelands) dry gas that it can economically utilize. The City will pay to the California State Lands Commission (State) the reasonable wholesale market value of Tidelands dry gas. The reasonable wholesale market value of such gas shall be determined from time to time jointly by the City and the State.

On March 16, 2010, the City entered into a 2010 Long Beach Tidelands Dry Gas Agreement. The agreement established that the State's price for Tidelands dry gas is as follows:

"The reasonable wholesale market value of Long Beach Tidelands dry gas to be used as the price determinant for Tidelands dry gas received by the City into the system of its municipal gas department and not sold under short term contracts shall be the First of the Month Price minus five cents. First of the Month Price is the price published under the heading "Market Center Spot Gas Prices" for "California - SoCal Gas citygate" as reported by Inside FERC's Gas Market Report (\$/MMBtu)."

However, through the City's 2007 agreement with Merrill Lynch Commodities, Inc. (MLCI), for a prepaid natural gas supply, the City was able to purchase natural gas through MLCI at a price lower than the First of the Month Price purchase price. Through negotiations with State staff, a 2017 agreement was reached for the City to directly pay the State the prepay price for Tidelands gas.

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The 2017 Long Beach Tidelands Dry Gas Agreement will remain in effect until a new agreement takes its place or until the City and the State determine that the agreement is no longer needed for valuing Tidelands dry gas. The City or the State may demand a renegotiation of this 2017 Agreement and, if a new price is agreed upon, the price shall be adjusted retroactively to reflect the newly established price from 30 days after the date of the notice demanding a price renegotiation

This matter was reviewed by Deputy City Attorney Richard F. Anthony on February 23, 2017 and by Revenue Management Officer Geraldine Alejo on March 2, 2017.

TIMING CONSIDERATIONS

City Council action is requested on March 21, 2017, prior to the State Lands Commission's meeting to vote on this Agreement on April 20, 2017.

FISCAL IMPACT

The 2017 Agreement will ensure that the City continues to purchase its Tidelands dry gas at a lower cost. There is no local jobs impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



ROBERT DOWELL
DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:


PATRICK H. WEST
CITY MANAGER