



Legislation Text

File #: 17-0581, **Version:** 1

Recommendation to authorize City Manager, or designee, to execute Customer Natural Gas Delivery Agreements with natural gas producers located within the Long Beach Gas and Oil Department service territory for locally-produced natural gas, in an estimated annual amount of \$550,000, for a period of five years, with automatic one-year renewal options, at the discretion of the City Manager. (Citywide)

The Long Beach Gas and Oil (LBGO) Department maintains Agreements with five local gas and oil producers (Locals) to deliver natural gas into LBGO's pipeline system. The current Agreements, which are set to expire September 30, 2017, allow LBGO to purchase natural gas from these local producers. The estimated cost of the Agreements is based on the current price of natural gas, which has declined since the expiring agreements were executed in 2012. Natural gas purchased under these delivery Agreements supply approximately 4 percent of LBGO's annual requirements to meet the demand of utility customers. These Agreements have been mutually beneficial to both LBGO and the Locals. It allows LBGO to purchase natural gas at a price equivalent to the lowest documented net price paid by the City, and allows Locals to relieve themselves of their natural gas production, a byproduct of their oil operations.

The new Agreements will continue to outline similar terms and conditions as the expiring Agreements. The relevant provisions are as follows:

- Conditioned on system capacity, LBGO agrees to take all locally-produced gas on a best-effort basis.
- Locals agree to provide LBGO with an estimate of deliveries at the start of each month, with notification of any daily fluctuations from this estimate.
- Locals, at their own expense, are responsible for obtaining all required permits for operation.
- LBGO is not obligated to accept delivery or make payment for any gas that does not meet the required gas quality or pressure specifications.
- At their own expense, Locals shall purchase and maintain automatic shut-off devices and other monitoring equipment. Locals are further obligated to pay, or reimburse LBGO, for all costs associated with the planning, design, purchase, installation, maintenance, and operation of monitoring equipment.
- LBGO shall remit payment to Locals for qualifying monthly gas deliveries accepted into the pipeline system. Payments shall be made on a \$/MMBtu basis (gas energy content) and shall be adjusted each month based on volume and indexed commodity price.

- Locals shall pay for all production, severance, excise, ad valorem, and other similar taxes imposed or levied by federal, state, or any other governmental entity on all natural gas delivered under these Agreements.
- The Agreements will be for a term of five years and allow for automatic annual renewals after the initial term.

This matter was reviewed by Deputy City Attorney Amy R. Webber on June 13, 2017 and by Revenue Management Officer Geraldine Alejo on June 16, 2017.

City Council action is requested on July 18, 2017, to ensure the uninterrupted supply of locally-produced natural gas into LBGO's pipeline system.

The total aggregate cost of the Agreements is estimated at \$550,000 per year, over the initial five-year term. The cost associated with the Agreements is estimated based on the current price of natural gas and is budgeted in the Gas Fund (EF 301) in the Long Beach Gas and Oil Department (GO). There is no local job impact associated with this recommendation.

Approve recommendation.

[Enter Body Here]

ROBERT DOWELL
DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:

PATRICK H. WEST
CITY MANAGER