

# 32226

## 2010 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT

Pursuant to section 6 of Chapter 29 of the Statutes of 1956, First Extraordinary Session, the City of Long Beach (City) shall receive into the system of its municipal gas department all Long Beach tidelands dry gas that it can economically utilize. The City shall pay to the California State Lands Commission (State) for the gas it can economically utilize the reasonable wholesale market value as determined from time to time jointly by the City and the State. The last agreement where the City and the State jointly determined the reasonable wholesale market value of tidelands dry gas was made in 2003 and is known as the 2003 Long Beach Tidelands Dry Gas Price Agreement (2003 Agreement).

In 2007, the Long Beach Bond Finance Authority (LBBFA) entered into a long-term agreement with Merrill Lynch Commodities, Inc. (MLCI) pursuant to which LBBFA prepaid for a supply of natural gas. LBBFA receives the prepaid natural gas pursuant to the agreement with MLCI and delivers the gas to the City at a discounted price pursuant to a separate natural gas supply agreement.

Shortly after the 2003 Agreement became effective, the carbon dioxide content of the tidelands dry gas increased to a point where it no longer could be received into the system of the City's municipal gas department. The City then sold the tidelands dry gas to the Long Beach Unit power plant and paid to the State the net proceeds from that sale, as provided in the Interim Agreement for Sale of Tidelands Dry Gas to the Long Beach Unit Power Plant. The amine plant became operational in January 2009, so that the carbon dioxide in the tidelands dry gas could be reduced to a level where it could be received into the City's system.

The City recently entered into an arrangement with MLCI for the sale of tidelands dry gas received into its municipal system under a short-term contract (i.e., a delivery period no longer than three years under any transaction confirmation). Whenever any Long Beach tidelands dry gas cannot be utilized economically in the City's municipal system and is not required for oil field operations in the Long Beach tidelands or cannot be sold to the Long Beach tidelands oil operations for other purposes, the City may sell the gas under short-term contracts, including that certain purchase and sale agreement between the City and MLCI referred to as the Physical Natural Gas Transaction Confirmation (Trade ID: LBPG0001) dated 03/01/11, 2010, and entered into pursuant to the International Swap Dealers Association, Inc. Master Agreement dated as of September 3, 2008 (MLCI Confirmation).

The City gave notice under the terms of the 2003 Agreement for a renegotiation of the determinant of the reasonable wholesale market value of tidelands dry gas. The MLCI Confirmation provides the price the City pays to the State for tidelands dry gas received into the City's system and purchased by MLCI. The City and the State, however, still need to maintain an agreement pursuant to which they have determined jointly the reasonable wholesale market value of tidelands dry gas. This price determination will be used to implement the agreement for valuing Long Beach tidelands shallow gas production and for valuing Long Beach tidelands dry gas received into the City's system when the City does not market it under short-term contracts.

The 2003 Agreement uses as the market value determinant 100% of Southern California Gas Company's cost of purchases of interstate gas for sales to its core customers (SoCal WACOG) in effect at the time the tidelands dry gas is taken by the City, plus one-half of the total intrastate transportation rate per MMBtu paid by the City to Southern California Gas Company (SoCalGas) on the gas the City transports through SoCalGas's pipeline system. This market

value determinant needs to be updated to reflect current market practices and conditions. The City and the State have agreed to use as their current determinant of the reasonable wholesale market value of tidelands dry gas the First of the Month price (more specifically defined below) minus five cents.

Therefore, the City and the State agree as follows:

1. Whenever Long Beach tidelands dry gas cannot be utilized economically in the City's municipal system and is not required for oil field operations in the Long Beach tidelands and cannot be sold to the Long Beach tidelands oil operations for other purposes, the City may sell the gas under short-term contracts, including that certain purchase and sale agreement between the City and MLCI referred to as the Physical Natural Gas Transaction Confirmation (Trade ID: LBPG001) dated 03/01/11, 2010, including but not limited to the pricing mechanism set forth therein, and entered into pursuant to the International Swap Dealers Association, Inc. Master Agreement dated as of September 3, 2008 (MLCI Confirmation). Long Beach tidelands dry gas sold to MLCI in connection with the MLCI Confirmation could not and cannot be utilized economically in the City's municipal system and was not and is not required for oil field operations in the Long Beach tidelands and could not and cannot be sold to the Long Beach tidelands oil operations for other purposes.

2. 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 the MLCI Confirmation or other 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 city-gate" as

reported by Inside FERC's Gas Market Report (\$/MMBtu). If Inside FERC's Gas Market Report no longer is published, then the First of the Month Price shall be the SoCal Gas city-gate price as determined by some other generally accepted industry publication reasonably selected by the City.

3. Notwithstanding paragraph 4 of the 2003 Agreement providing for retroactive application of a newly agreed upon price, the price determinant in paragraph 2 above shall not become effective until the effective date of the Natural Gas Delivery and Purchase Agreement for Unit Gas among the City of Long Beach, a municipal corporation, the City of Long Beach, as Unit Operator of the Long Beach Unit, THUMS Long Beach Company and Oxy Long Beach, Inc.

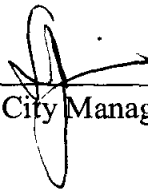
4. If either the City or the State believes that the price determinant in paragraph 2 above no longer reflects the reasonable wholesale market value of tidelands dry gas, either the City or the State may demand a renegotiation of this 2010 Long Beach Tidelands Dry Gas Price Agreement (2010 Agreement). The demand for renegotiation shall be made in writing and shall provide a factual basis for the belief on which the demand is based. Upon the making of a valid demand for renegotiation, the City and the State shall commence within thirty days of the notice, negotiations in good faith on a new pricing mechanism for tidelands dry gas. If a new price is agreed upon, the price shall be adjusted retroactively to reflect the newly established price from thirty days after the date of the notice demanding a price renegotiation.

5. This 2010 Agreement shall remain in effect until a new agreement takes its place or until the City and the State mutually determine that the agreement no longer is needed for purposes of valuing tidelands dry gas.

6. This 2010 Agreement has been approved on behalf of the City by the Long Beach City Council and on behalf of the State by the California State Lands Commission.

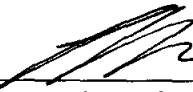
Dated: 2/24/11

CITY OF LONG BEACH


  
City Manager  
Assistant City Manager  
EXECUTED PURSUANT  
TO SECTION 301 OF  
THE CITY CHARTER.

Dated: 3/16/11

CALIFORNIA STATE LANDS COMMISSION

  
~~Paul D. Thayer, Executive Officer~~  
Curtis L. Fossum, Executive Officer

APPROVED AS TO FORM

2-17, 20 11  
ROBERT E. SHANNON, City Attorney  
By   
RICHARD ANTHONY  
DEPUTY CITY ATTORNEY