



March 16, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the 2010 Long Beach Tidelands Dry Gas Agreement with the California State Lands Commission for pricing of tidelands gas that the City can economically use including amendments, which do not change the pricing or otherwise material terms. (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.

The latest pricing agreement was made in 2003, where the City and the State jointly determined the reasonable wholesale market value of Tidelands dry gas,. The 2003 Agreement provides that the price for Tidelands dry gas shall be equivalent to the City's weighted average cost of gas (WACOG) plus one-half the avoided transportation cost.

On December 18, 2007, the City gave notice to the State of the City's demand to renegotiate the price called for by the 2003 Agreement. The City and State have reached agreement on the following new pricing arrangement:

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).

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This 2010 Long Beach Tidelands Dry Gas Agreement (2010 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. Either the City or the State may demand a renegotiation of this 2010 Agreement and, 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.

This matter was reviewed by Deputy City Attorney Richard Anthony on February 2, 2010 and by Budget and Performance Management Bureau Manager David Wodynski on February 5, 2010.

TIMING CONSIDERATIONS

City Council action is requested on March 16, 2010, prior to The State Lands Commission's meeting to vote on this Agreement on April 6, 2010.

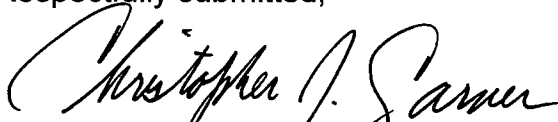
FISCAL IMPACT

The new agreement will adjust the price paid for Tidelands dry gas to be consistent with price paid for other gas purchases for the City of Long Beach.

SUGGESTED ACTION:

Approve recommendation.


Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS & OIL

CJG:CPH:lld

APPROVED:



PATRICK H. WEST
CITY MANAGER

10 FEB 20 11:11:33
SECRETARY