

Short Term Market Conditions

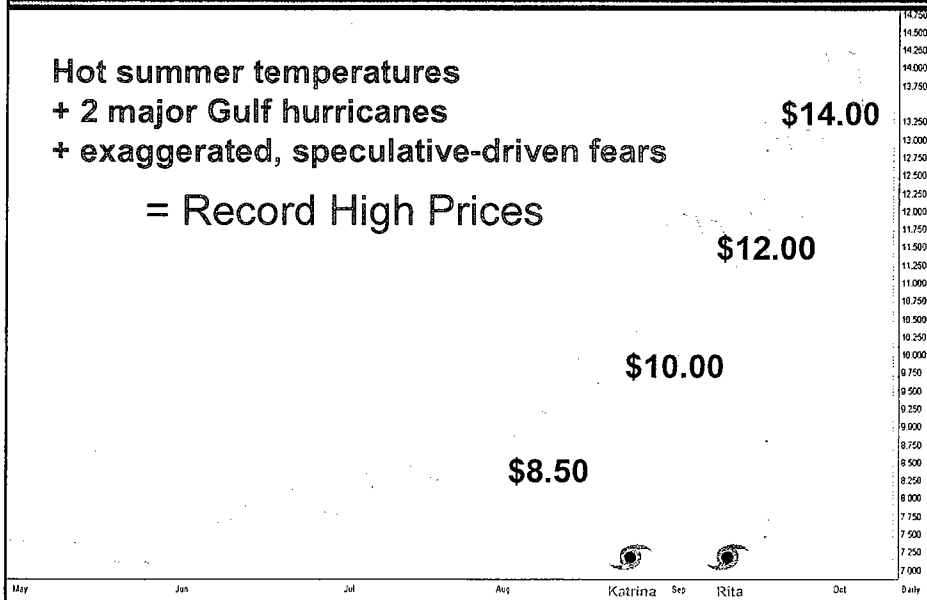
 1.5 billion cubic feet per day of production in Gulf destroyed by hurricanes Katrina and Rita

 Jan 06 warmest since 1895, with Nov-Jan the third warmest

 High storage levels nationwide

Tight Supply Market Reacts

Hot summer temperatures
 + 2 major Gulf hurricanes
 + exaggerated, speculative-driven fears
 = Record High Prices

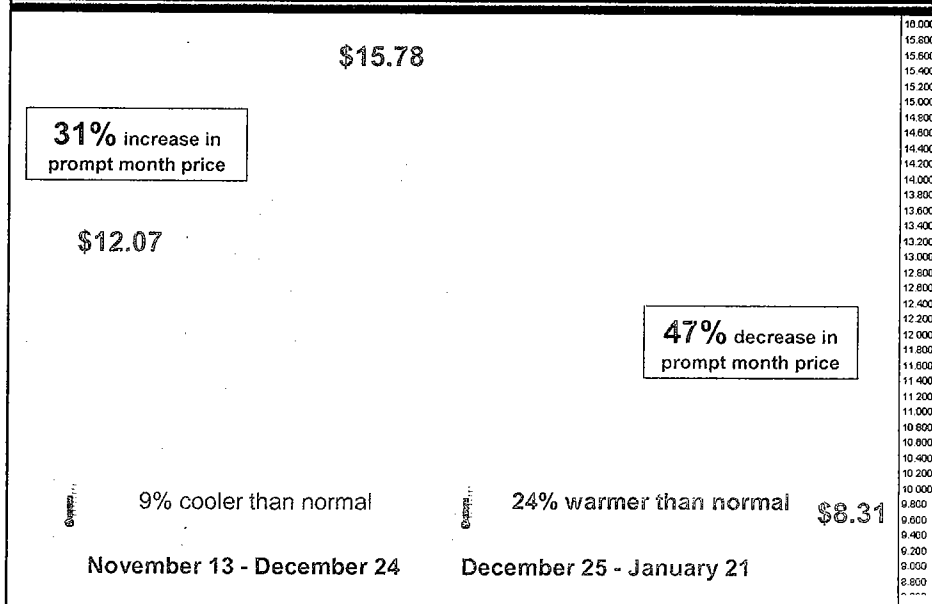


Short Term Market Conditions

 Market prices increase with cold winters/hot summers, decrease with warm winters/cool summers

 With warm winter and storage high, prices decreasing in near term, over 50% decrease in price since Dec

Weather Primary Impact on Price



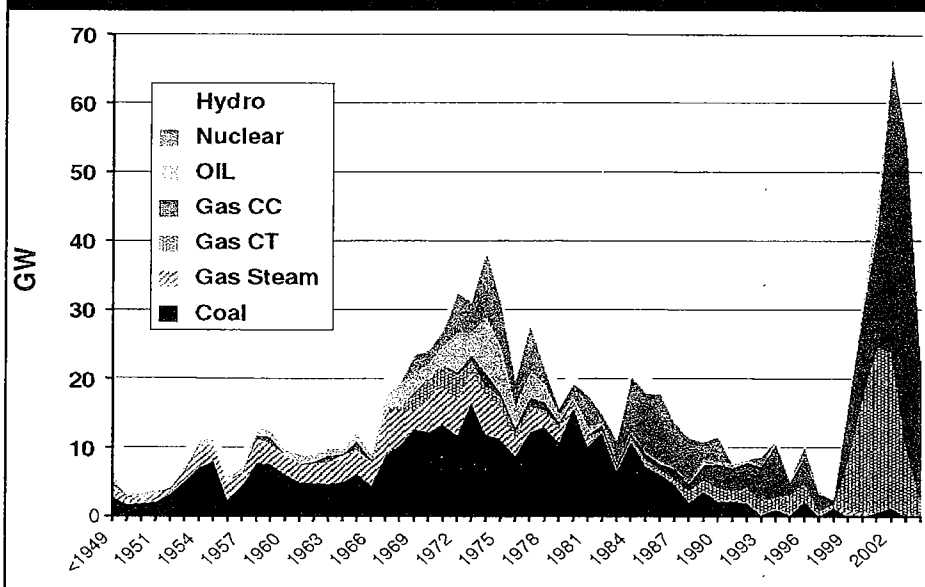
Long Term Market Conditions

♞ There are 432,000 wells in the US, an increase of 130,000 (43%) since Jan 00

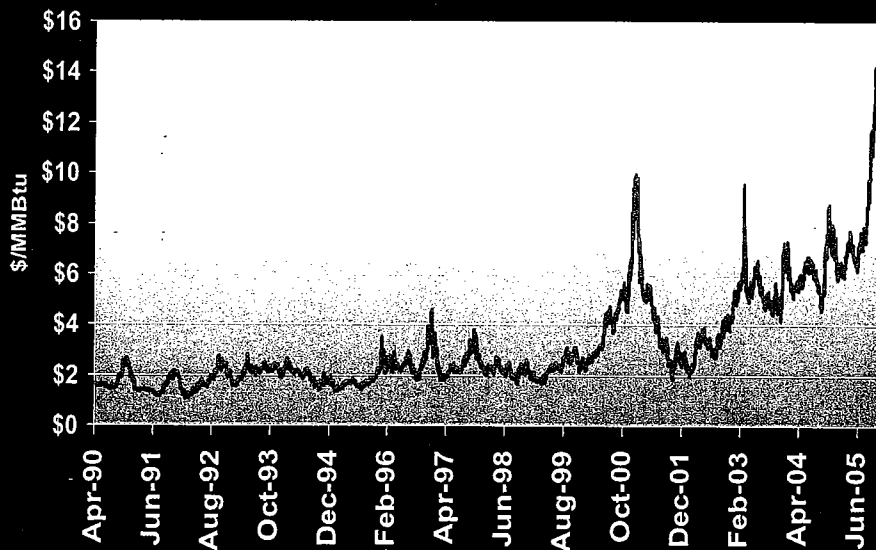
♞ 50% of US gas production comes from wells drilled in the last 3 years

♞ Despite increased drilling, production levels are declining

Natural Gas Fueled Power Plants



NYMEX Gas Prices 1990-2005



Gas Supply Philosophy

-  Failure to proactively contract now against future market volatility is an unacceptable risk for our customers
-  Our customers must be protected against high winter gas prices
-  Use a portfolio approach to maximize protection and minimize market risk
-  Be price comparable

Negotiation Process

- Issued Request for Qualifications to all major West Coast natural gas suppliers
- Narrowed down to most qualified: BP, Coral Energy (Shell Oil), and Oxy
- Council approved parameters allowed flexibility and creativity in negotiations

Final Deal Negotiated

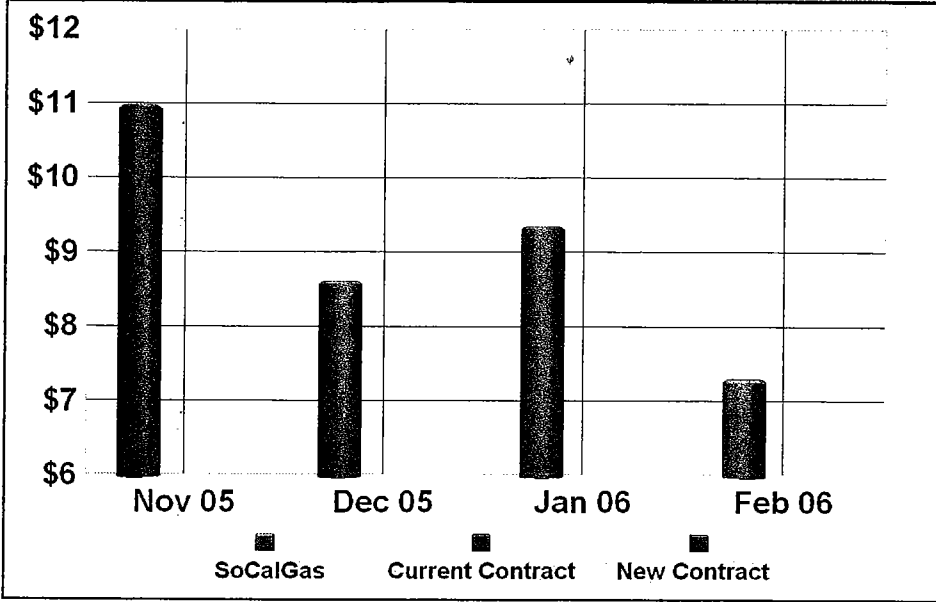
Council Parameters

- ⊙ 3 Year Term
- ⊙ Summer
 - CA Border less 1 cent
 - Price floor \$8.50/dth
- ⊙ Winter
 - CA Border less 1 cent
 - Price floor \$8.50/dth
 - Price ceiling \$15.00/dth
- ⊙ Monthly Fee
 - \$150,000

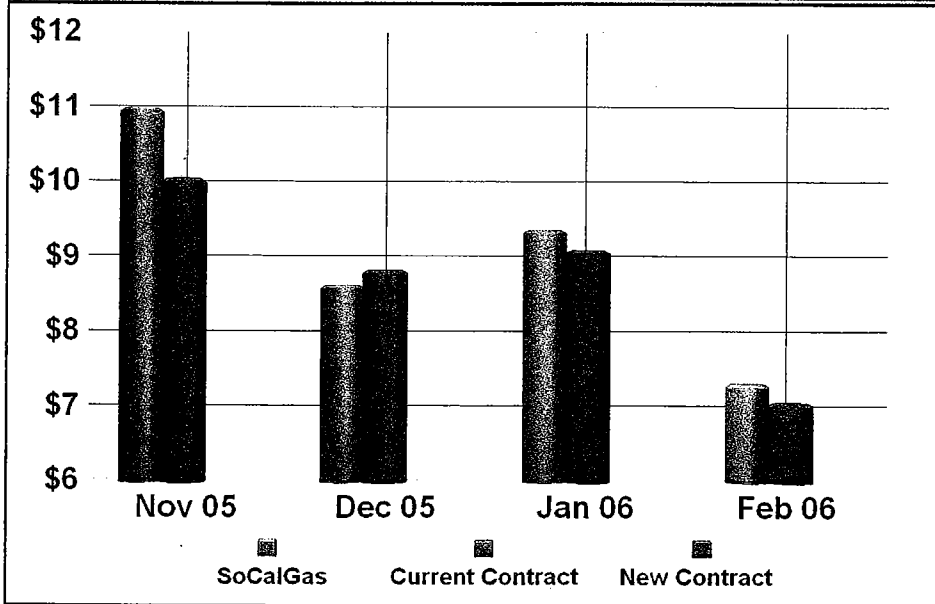
Coral Deal Points

- ⊙ 3 Year Term
- ⊙ Summer
 - CA Border less 4 cents
 - Price floor \$5.50/dth
- ⊙ Winter
 - 50% fixed at \$8.20/dth
 - 50% CA Border less 4 cents
 - Price floor \$5.50/dth
 - Price ceiling \$10.50/dth
- ⊙ Monthly Fee
 - \$84,000

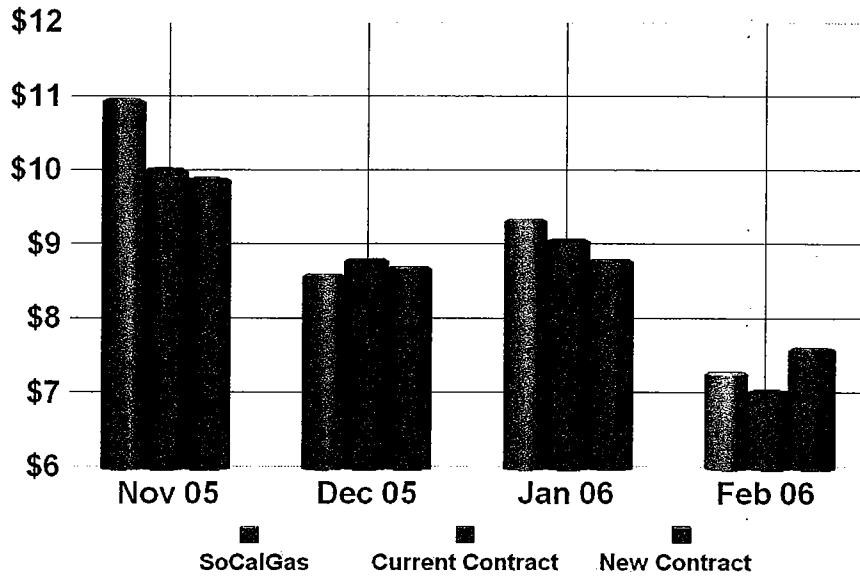
Contract Comparison



Contract Comparison

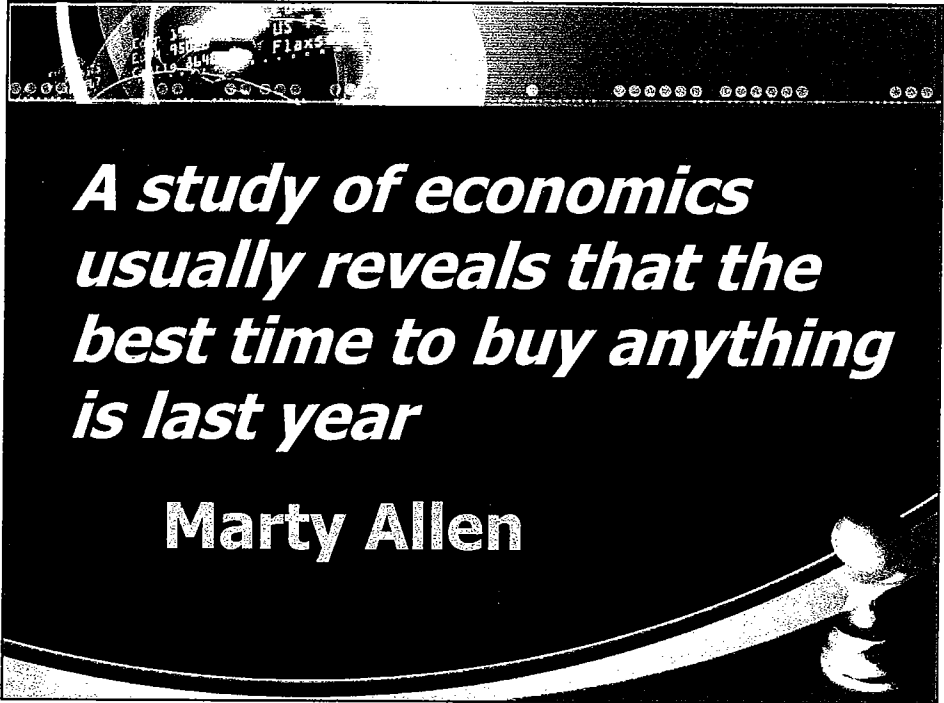


Contract Comparison



Final Deal Negotiated

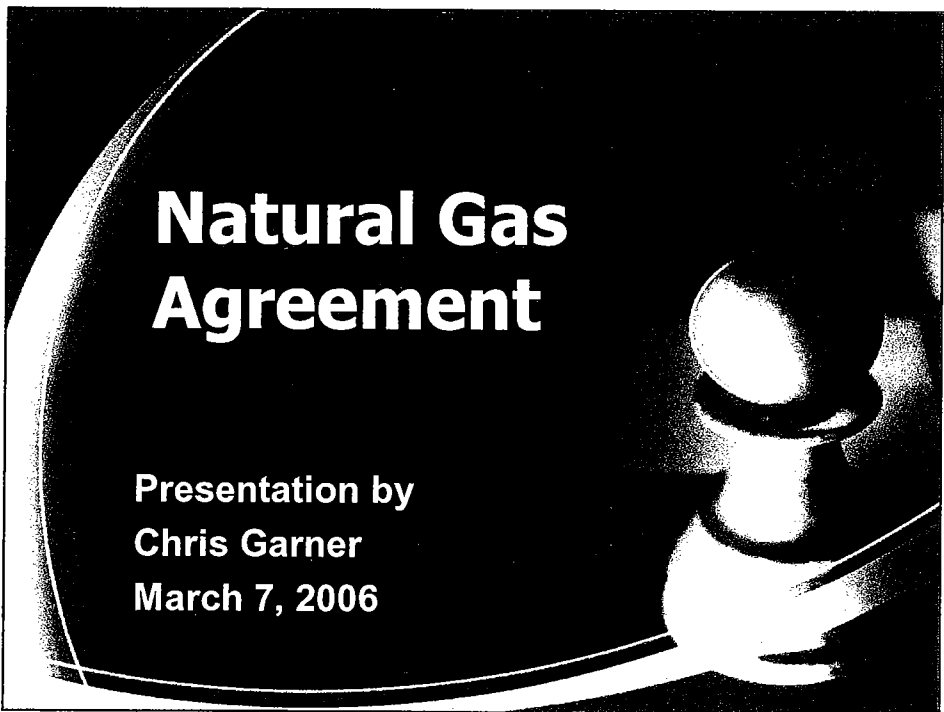
Long Beach customers will receive a reliable supply of competitively priced gas while protected against high winter gas bills to a greater extent than any other gas customer in Southern California



***A study of economics
usually reveals that the
best time to buy anything
is last year***

Marty Allen

The background of this slide features a dark, high-contrast image of a financial market data screen. At the top, there are several columns of text, including "US Flax" and "ES". The overall aesthetic is technical and data-driven.



**Natural Gas
Agreement**

Presentation by
Chris Garner
March 7, 2006

The background of this slide shows a close-up, high-contrast image of a gas valve or burner knob. The lighting is dramatic, highlighting the metallic texture and the circular shape of the knob against a dark background.