

CHRISTOPHER J. GARNER
DIRECTOR

September 20, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California**RECOMMENDATION:**

Receive and file report relative to anticipated higher natural gas bills for winter 2005/06. (Citywide)

DISCUSSION

Largely due to the impact of Hurricane Katrina, the U.S. Department of Energy (DOE) is anticipating natural gas price increases across the United States this upcoming winter. DOE is projecting that prices will be approximately 50 percent higher than last winter. The current forecast for Long Beach Energy's (LBE) residential customers is slightly more optimistic. Using recent futures market prices as a gauge, the current projection for LBE residential customers is an anticipated average gas bill increase of 34 percent this winter as compared to last winter's bills. Last winter, the average residential customer paid \$63 for their monthly gas bill. This winter, the forecasted average monthly residential bill will be \$84. This forecast will continue to fluctuate as the longer-term market impacts of Hurricane Katrina evolve.

Currently, as has been the case for the past few years, LBE's customers receive, on average, the lowest monthly natural gas bills in comparison to other Southern California gas utilities. Despite the increase in market prices, LBE fully expects to remain highly competitive with these other utilities, and most likely, will continue to be the leader.

Although the natural gas market may reach much higher price levels this winter, LBE is confident that customers will not experience gas bills anywhere near the levels experienced during the energy crisis of 2000/01. The City Council, upon the recommendation of the City Manager, approved long-term gas supply contracts that provide significant price protections. As protection against possible upswings in natural gas market prices, LBE's two major gas supply contracts include price ceilings of \$1.00 per therm during the winter months of November through March. For comparison, the highest cost of gas charged to LBE customers during the 2000/01 energy crisis was \$1.62 per therm. The current contractual price ceiling ensures that LBE customers will not pay more than \$1.00 per therm for the "Cost of Gas" portion of their bill this winter, regardless of how high the actual gas market increases. The City is not aware of any other gas utility in Southern California with similar price protection.

NOTE: The actual monthly cost of gas is passed through to our customers without any mark-up. The cost of gas makes up about two-thirds of a customer's gas bill. The other third is the fixed rates, set by the City Council, that provide for the pipeline transmission of the gas from the California border to the customer's meter and all associated customer services. Long Beach Energy has not recommended a rate increase for fiscal year 2006 for this non-commodity portion of our gas rates.

Further price protection is provided through LBE's action of maintaining 8,000,000 therms in underground storage, purchased during the early summer months when prices were much lower. This lower-priced, stored gas will be used to help reduce the higher winter priced gas.

This matter was reviewed by Deputy City Attorney Richard Anthony and Budget Management Officer David Wodynski on September 12, 2005.

TIMING CONSIDERATIONS

This issue is not time critical.

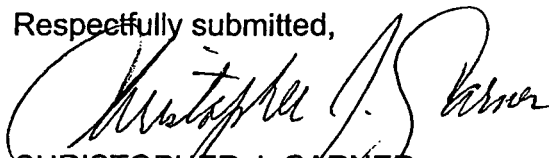
FISCAL IMPACT

There is no fiscal impact associated with this action. Funds associated with the gas supply are included in the Gas Fund (EF301) in the Long Beach Energy Department (EN).

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH ENERGY AND OIL PROPERTIES

CJG:JC
CCL - WINTER 006 GAS PRICES

APPROVED:



GERALD R. MILLER
CITY MANAGER