



CHRISTOPHER J. GARNER  
DIRECTOR

May 17, 2005

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to enter into a natural gas supply agreement with Constellation Energy Commodities Group, Occidental Energy Marketing, Inc., Pacific Summit Energy, LLC, Coral Energy Resources, L.P. or Sempra Energy Trading that meets the following conditions: 1) a term not to exceed one year; 2) a volume of 8,800 MMBtu per day; 3) a monthly price indexed to delivery at the Southern California Border, plus a fixed fee of not greater than \$0.15 per MMBtu; and 4) a price ceiling of not greater than \$12.00 per MMBtu and a price floor of not greater than \$6.00 per MMBtu. (Citywide)

**DISCUSSION:**

On March 4, 2003, and March 18, 2003, the City Council authorized the City Manager to enter into a long-term natural gas supply Agreement with Coral Energy Resources, L.P. (Coral). The Coral Agreement provides for approximately two-thirds of the City's natural gas requirements. The remaining natural gas is supplied through local producers.

The City of Long Beach, Long Beach Energy Department (LBE), entered into an Agreement with THUMS Long Beach Company (THUMS) to deliver natural gas owned by the State of California to LBE. LBE terminated the THUMS Agreement effective January 31, 2005, based on non-compliance relative to gas quality specifications. As a result, LBE is required to replace the gas previously provided through THUMS.

Currently, LBE purchases the THUMS replacement gas from Coral at a separate price from the volume requirements of the Coral Agreement. The gas is purchased at the daily price index at the Southern California Border without any price protection.

Rather than continuing to purchase the replacement gas without the price protection, LBE is proposing to enter into a one-year gas supply agreement, which would protect LBE customers against extreme volatility in the gas market. LBE has issued a Request for Qualification for a Natural Gas Supply Provider relative to the replacement gas, has reviewed

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the respondents' proposals, and is prepared to negotiate an agreement upon City Council approval.

Provided that negotiations with the various suppliers result in a gas supply proposal that meets or exceeds the criteria outlined in this letter, LBE will enter into the agreement and subsequently inform the City Council of the financial terms included in any such agreement.

This matter was reviewed by Assistant City Attorney Michael J. Mais and Budget Management Officer David Wodynski on May 12, 2005.

TIMING CONSIDERATIONS

To obtain the price protection for LBE's customers effective with gas supply deliveries beginning June 1, 2005, it is requested that City Council action on this item is needed by May 17, 2005. To require a supplier to offer a price that is valid for an extended length of time prior to obtaining City Council approval will result in a much less attractive offer as the supplier will include a substantial premium to protect against potential future price unpredictability.

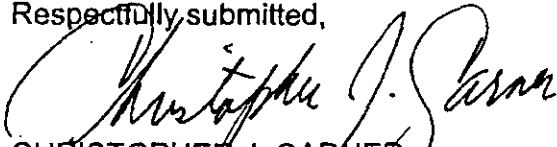
FISCAL IMPACT

Funds associated with the natural gas supply agreement are included in the budget of the Long Beach Energy Department (EN) in the Gas Fund (EF301).

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



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

CJG:JC  
C:\MY DOCUMENTS\DOCS\CITY Council\05-17-05 CCL - NATURAL GAS SUPPLY AGREEMENT

APPROVED:



GERALD R. MILLER  
CITY MANAGER