



March 24, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to enter into a Natural Gas Services Agreement with Shell Energy North America (SENA) to provide the administrative functions related to the delivery of natural gas to the City of Long Beach's natural gas pipeline system for a term not to exceed three years. (Citywide)

DISCUSSION

The supply of natural gas entering Long Beach Gas & Oil's (LBGO) natural gas pipeline system is delivered via the Southern California Gas Company's transmission system from various supply locations. These sources include intrastate and interstate sources, local storage facilities and local production. LBGO currently has a Natural Gas Services Agreement with SENA, in which SENA calculates load forecasts and coordinates the natural gas supply from multiple sources to ensure a reliable source of natural gas for LBGO's core, non-core, and industrial transportation customers.

On March 31, 2009, the current Natural Gas Services agreement with SENA will expire. With the current agreement expiring, LBGO issued a Request for Qualifications to various major natural gas supply providers. After interviewing four suppliers, two finalists were selected based upon their abilities and pricing structure. The two finalists were SENA and Merrill Lynch Commodities, Inc. Each of these companies has an excellent reputation in the industry, has extensive expertise in the procurement and transportation of natural gas, and has acceptable credit ratings. Based on an analysis of requirements and cost benefits, LBGO determined that SENA should be awarded the contract. Due to various operational factors, SENA has offered to provide these services at a reduced cost from the previous agreement to the City for a three-year period. These costs are normally borne by LBGO utility customers; therefore, the savings will be realized by the customers as a reduction in their monthly gas bills.

The requirements of the new Natural Gas Services Agreement will include, but not be limited to, the following services:

- Administration of the Southern California Gas Company's Transportation Agreement;
- Storage management;
- Nomination and scheduling;
- Load forecasting and balancing services;
- Procurement on incremental gas supply; and
- Management of Firm Access Right for the delivery of natural gas from intrastate and interstate sources into the Southern California Gas Company's pipeline system.

This matter was reviewed by Principal Deputy City Attorney Charles Parkin and Budget Management Officer Victoria Bell on March 13, 2009.

TIMING CONSIDERATIONS

City Council action is requested on March 24, 2009 to ensure a Natural Gas Services Agreement is in place by March 31, 2009.

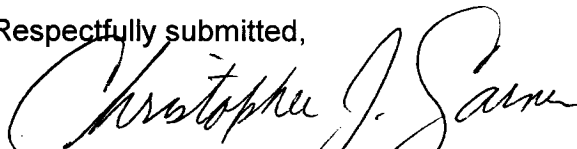
FISCAL IMPACT

There will be no fiscal impact to the City from the new Natural Gas Services Agreement since the management fee is directly passed on to customers.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS & OIL

CJG:LHT:djb

APPROVED:



PATRICK H. WEST
CITY MANAGER