CITY OF LONG BEACH
Gas & Oil
DEPARTMENT

R-24

ROBERT DOWELL
DIRECTOR

2400 EAST SPRING STREET · LONG BEACH, CA 90806
(562) 570-2000 · www.lbgo.org

December 13, 2016

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute a North American Energy Standards Board (NAESB) Base Contract with Direct Energy Marketing, LLC (Direct Energy), of Houston, TX, for the purchase and sale of natural gas. (Citywide)

DISCUSSION

Effective November 1, 2007, the City of Long Beach (City) entered into a 30-year prepay agreement with Merrill Lynch Commodities, Inc., to deliver a daily contracted volume of natural gas to the Long Beach Gas and Oil (LBGO) pipeline system for consumption by LBGO customers. Currently, the amount delivered under the prepay contract meets approximately 75 percent of total demand. While natural gas producers located within the Long Beach service territory deliver a relatively small volume of gas directly into the LBGO system, the remaining demand is primarily met by purchasing on the open market through LBGO's trading partners. Natural gas delivered under the prepay agreement and purchased on the open market is transported by interstate pipelines to the California border. The City utilizes intrastate pipelines owned by the Southern California Gas Company (SoCalGas) to transport this natural gas from the California border to LBGO's utility distribution system.

Natural gas transported through the SoCalGas system is subject to balancing requirements. SoCalGas imposes monthly balancing rules that require entities that use its system to deliver no more than 10 percent above or below their actual use. Any volume of gas outside of this 10 percent tolerance is subject to financial penalties. As a result of the Aliso Canyon gas storage leak, SoCalGas now imposes more stringent daily balancing requirements. If SoCalGas anticipates reliability issues from an excess or insufficient supply of natural gas delivered into its system, a 5 percent daily balancing requirement is now imposed.

The City's overall natural gas demand is highly volatile, with large fluctuations primarily driven by weather conditions. The high volatility of demand, along with SoCalGas' new balancing rules, require LBGO to closely monitor the amount of natural gas being delivered. If it is determined that the amount of natural gas being delivered to the City is outside the tolerances set by SoCalGas, it is necessary that LBGO be able to buy/sell natural gas to avoid potential financial penalties. Although LBGO has NAESB agreements with other gas marketers, it is beneficial to both LBGO and its ratepayers to expand the number of available options. LBGO solicits and selects the lowest responsive bid from these marketers whenever additional gas is purchased or sold. Direct Energy is the third largest commercial and industrial energy retailer in North America, with extensive experience supplying local gas distribution companies.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on November 16, 2016 and by Budget Analysis Officer Julissa José-Murray on November 17, 2016.

TIMING CONSIDERATIONS

City Council action is requested on December 13, 2016, to expand the options available to LBGO to efficiently manage the purchase and sale of natural gas for the benefit of its customers.

FISCAL IMPACT

Funds required for this Agreement are already budgeted in the Gas Fund (EF 301) in the Long Beach Gas and Oil Department (GO). A minimal net savings to the Gas Fund is expected under this agreement. The extent of the savings is unknown as it is dependent on market prices and the volume of natural gas purchased. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

ROBERT DOWELL
DIRECTOR OF LONG BEACH GAS AND OIL

RD:LAF:djb

APPROVED:

PATRICK H. WEST
CITY MANAGER