



August 21, 2012

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

Authorize the City Manager to negotiate and execute Natural Gas Delivery Agreements and future amendments between the City of Long Beach and sellers of locally-produced natural gas in an estimated annual amount of \$1.3 million for contract periods not to exceed five years. (Citywide)

DISCUSSION

The Long Beach Gas and Oil (LBGO) Department maintains Agreements with five local oil producers (Locals) to purchase natural gas. The current Agreements will expire on September 30, 2012. Under these Agreements, natural gas is purchased as a supplement to LBGO's current major natural gas supply from Merrill Lynch Commodities, Inc. The Locals supply approximately 3.5 percent of the annual natural gas requirements of LBGO customers and are paid a per therm cost equivalent to the lowest documented net price paid for natural gas by the City to any contracted natural gas supplier in any given month. These Agreements have been mutually beneficial to LBGO and the Locals. LBGO has benefited from a reasonably priced supply of natural gas, and the Locals are able to allay themselves of their natural gas reserves.

The new Agreements will continue to outline the same terms and conditions under which local producers must operate as the current expiring Agreements. The relevant provisions are as follows:

- Conditioned on LBGO capacity, LBGO agrees to take all produced gas delivered to the agreed upon Delivery Point by Locals on a best efforts basis. Locals agree to provide LBGO with an estimate of deliveries at the start of each month and notification of any daily fluctuations from this estimate.
- Locals, at their own expense, are responsible for obtaining all required permits for operation.

- LBGO is not obligated to accept delivery, receive or make payment for any gas which does not meet the required quality or pressure specifications as set forth under these Agreements. LBGO shall operate an automatic shut-off device which will close automatically in the event of delivery of non-compliant gas.
- Locals, at their own expense, shall purchase and fund maintenance of the automatic shut-off and other monitoring equipment. Locals are further obligated to pay for or reimburse LBGO for all costs associated with the planning, design, purchase, installation, maintenance, and operation of monitoring equipment.
- LBGO shall remit payment to Locals for qualifying monthly gas deliveries accepted into the LBGO pipeline system. The payment shall be based upon the MMBTU (gas energy content) and shall be adjusted each month based on volume and the indexed commodity price.
- Locals shall pay for all production, severance, excise, ad valorem, and other similar taxes imposed or levied by federal, state, or any other governmental entity on the gas deliveries under these Agreements.

This matter was reviewed by Deputy City Attorney Richard Anthony on July 31, 2012 and by Budget Management Officer Victoria Bell on August 1, 2012.

TIMING CONSIDERATIONS

City Council action is requested on August 21, 2012, as the existing Agreements expire on September 30, 2012. To ensure the continuation of natural gas purchases from the Locals, new agreements must be executed prior to October 1, 2012.

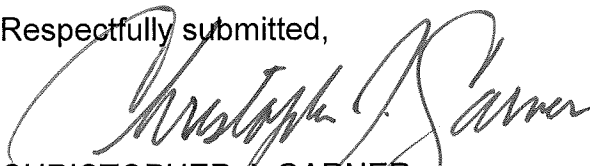
FISCAL IMPACT

Total estimated gas purchases resulting from the proposed delivery agreements are \$1.3 million per year over the five-year term of the Agreements. The costs associated with Local gas purchases are budgeted in the Gas Fund (EF 301) and the Long Beach Gas and Oil Department (GO). There is no local job impact associated with this action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:CAB:LAF:djb

APPROVED:



PATRICK H. WEST
CITY MANAGER