



August 21, 2007

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to enter into a Gas Services Agreement with Coral Energy Resources, L.P., for a term not to exceed 20 months, terminate the existing Energy Master Purchase/Sale and Services Agreement with Coral Energy Resources, L.P., execute an ISDA (International Swaps and Derivatives Association) Master Agreement, and execute a NAESB (North American Energy Standards Board) Contract. (Citywide)

**DISCUSSION**

On August 21, 2007, the Long Beach Gas and Oil Department (LBGO) requested City Council approval of a Resolution authorizing the issuance of bonds by the Long Beach Bond Finance Authority related to the prepayment of a natural gas supply through Merrill Lynch for a term of 30 years in an amount not to exceed \$1.3 billion.

A gas prepay transaction is an agreement whereby a municipal utility, leveraging its ability to issue tax-exempt debt, will cause bonds to be issued so as to enter into a firm, long-term gas supply contract at a reduced cost, far below the cost that might otherwise be obtainable. The bond proceeds are paid upfront to the gas supplier in exchange for future gas deliveries at market prices less a fixed discount. The discounted price is possible because the tax-exempt borrowing rate of the gas purchaser is lower than the gas supplier's taxable cost of capital.

In order for the City of Long Beach (City) to move forward with the prepay transaction, authorization and approval of auxiliary contracts and agreements must take place to facilitate the deliveries of prepay gas and begin realizing cost savings. Coral Energy Resources, L.P., (Coral) has worked diligently in conjunction with the City and Merrill Lynch to develop a solution to initiate the prepay volumes and gas discount to the City on the proposed date of October 1, 2007.

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The existing Master Purchase/Sale and Services Agreement with Coral, which was approved by the City Council on February 14, 2006 must be terminated effective 12:00 a.m. on October 1, 2007, and a new Gas Services Agreement entered into at 12:01 a.m. on October 1, 2007. As a condition of the gas prepay transaction, the City will no longer contract with Coral for the Utility's baseload physical gas supply requirements, but rather only for administrative functions and incremental gas supply requirements under the new Gas Services Agreement, which 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; and
- Procurement of incremental gas supply.

With the termination of the existing Master Agreement with Coral, it is necessary for the City to enter into two additional contracts to accommodate the unwinding of the physical and financial aspects of the existing Master Agreement with Coral, as well as support the implementation of the Merrill Lynch natural gas prepay transaction:

- ISDA Agreement (International Swaps and Derivatives Association): A master enabling agreement, under which transactions are confirmed to keep the current financial aspects of the Master Agreement whole, as well as provide a means to establish future hedging programs. The ISDA Agreement does not have any financial impact to the City and has no end date.
- NAESB Contract (North American Energy Standards Board): An industry standard enabling agreement to trade physical gas. The City will enter into a NAESB Contract, which is a legal document used to trade physical gas, as a base contract and tool to purchase and sell natural gas. The NAESB Contract provides the City with the ability to 1) purchase incremental gas volumes from Coral as customer demand requires, and 2) sell excess non-prepay volumes due to load loss or additional local gas coming into the City's gas distribution system at market rates.

This matter was reviewed by Deputy City Attorney Richard Anthony and Budget and Performance Management Manager David Wodynski on August 13, 2007.

TIMING CONSIDERATIONS

City Council action is requested on August 21, 2007. LBGO purchases approximately \$75 million of natural gas commodity on behalf of its customers annually. It is expected that the proposed gas prepay transaction will result in an estimated annual cost savings of \$5 to \$7 million, or approximately \$150 to \$200 million over the term of the next 30 years. Services and transactions under the Gas Services, ISDA and NAESB agreements will commence October 1, 2007.

FISCAL IMPACT

Funds associated with these Agreements are budgeted in the Gas Fund (EF 301) and the Long Beach Gas and Oil Department (EN). The Gas Fund is derived from revenue realized from customer payments for the gas commodity and associated services.

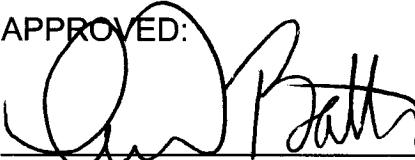
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

  
CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:JC  
C:\COUNCIL LETTER 08-21-07 CORAL ENERGY

APPROVED:  
  
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ANTHONY W. BATTIS  
CITY MANAGER