

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

C-15

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May 18, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Agreement for Delivery of Water With the Harbor Cogeneration Company (HCC) (Districts 1 and 2)

DISCUSSION

The Harbor Cogeneration Company Plant (Plant) was built to supply steam for injection into the Wilmington oil field and sell electricity to Southern California Edison (SCE). In February 1999, HCC suspended operations after HCC and SCE executed an agreement to terminate SCE's Electrical Purchase Contract. The termination agreement also cancelled the City's contract to purchase steam from HCC. Due to low oil prices, the City elected to discontinue its steam injection project and did not negotiate a new steam purchase agreement with HCC. Water is now being injected as a lower-cost alternative.

Since 1999, HCC has been operating the Plant intermittently during the summer months when it can sell electricity at high spot prices. HCC has no purchaser for the steam generated by the Plant and has been venting it into the atmosphere. To prevent problems caused by water droplets, which can condense out of the steam plume, HCC installed a device to separate the water from the steam. Other clean water sources from the Plant also need to be disposed of by HCC.

On June 22, 1999, the City Council approved an Agreement for Delivery of Water, which provided for HCC to deliver this water to the City's oil field operations. For a processing fee of \$0.05 per barrel, the City treated and processed this water for injection into the Wilmington oil field. On August 28, 2001, the City Council approved an Amendment to the Agreement, increasing the processing fee to \$0.20 per barrel due to inflation, increased electrical rates, and added water treatment costs.

The new Agreement will provide the City a higher water delivery rate, an additional flat fee of \$5,000 per month, and a processing fee of \$0.12 per barrel. The term of the Agreement will be for one year, beginning June 1, 2004, subject thereafter to a six-month notice of termination by either party.

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This item was reviewed by Deputy City Attorney J. Charles Parkin on May 3, 2004 and by Budget Bureau Manager Michael Killebrew on May 6, 2004.

TIMING CONSIDERATIONS

City Council action on this matter is requested on May 18, 2004 to take advantage of the enhanced water delivery fees in June when water delivery rates from HCC are expected to peak.

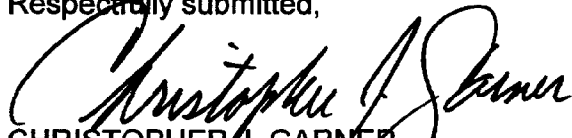
FISCAL IMPACT

The increased water sales volumes and revenues from HCC will increase revenues to the Uplands Oil Properties Fund (Fund SR 134) by approximately \$3,200 per year.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

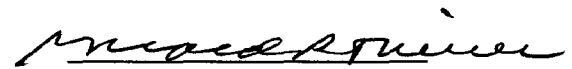
Authorize the City Manager to execute a new Agreement for Delivery of Water between the City of Long Beach, West Wilmington Unit Operator, and the Harbor Cogeneration Company and provide for the City Manager to approve changes in water delivery specifications and fees or to terminate the Agreement. The Agreement becomes effective June 1, 2004 and continues for a period of one year, subject thereafter to a six-month notice of termination by either party.

Respectfully submitted,


CHRISTOPHER J. GARNER
DIRECTOR OF OIL PROPERTIES

CJG:SCS
LEG 638.015

APPROVED:


GERALD R. MILLER
CITY MANAGER