File #: 13-0232, **Version:** 1

Recommendation to authorize City Manager to execute a Gas Agreement between the City of Long Beach, as Fault Block Unit Operator, and City of Long Beach, as Long Beach Unit Operator, for a five -year term, with a month-to-month continuance until termination upon thirty days notice by either party. (Districts 1,2)

The City of Long Beach, as Unit Operator of the Fault Block Units (FBU), is interested in reducing air emissions through the elimination of a processing flare. The flare is utilized to dispose of natural gas produced from the Fault Block Units that does not meet sales quality specifications. The FBU utilizes a portion of the produced natural gas in its operations, but a sizeable amount of natural gas remains to be disposed of through the flare. The cost to refine the natural gas to sales quality is not economical for the amount of natural gas produced. When natural gas is burned in the processing flare, no revenue is generated by the FBU.

Pursuant to the South Coast Air Quality Management District rules, if flaring of gas continues, the FBU will be required to modify the flare. The cost of the modifications would initially be approximately $600,000 and the FBU would thereafter be required to spend approximately $80,000 per year, so long as the flare is utilized. In addition, if the flare continues to be used, the FBU will have to purchase offsets for the green house gas emissions generated by the flare.

The City of Long Beach, as Unit Operator of the Long Beach Unit (LBU), proposes utilizing the natural gas that would otherwise be flared. The LBU will utilize the natural gas in its power plant, helping to reduce operating costs. The FBU will compensate the LBU for all costs associated with processing the natural gas. In return, the LBU will pay the FBU fair market value for the natural gas. If market conditions have changed at the end of the term, the FBU has the option to terminate the agreement and invest its own capital to process the produced gas so that it can be sold by the FBU.

This project has the benefit of reducing both conventional air emissions as well as green house gases. In fact, if the flare is no longer used, the result will be a 25 percent reduction of green house gas emissions for the oil field. The gas that is used by the LBU will be displacing gas that would otherwise be purchased by the LBU. The net effect is a reduction in emissions by the City’s oil operations.

The City of Long Beach, in its capacity as Unit Operator, represents the working interest owners of both the LBU and the FBU, and, therefore, signs all agreements on behalf of each distinct Unit.

This matter has been reviewed by Deputy City Attorney Richard Anthony and by Budget Management Officer Victoria Bell on February 14, 2013.

City Council action on this matter is not time critical.

Revenue from this agreement will be approximately $80,000 per year allocated to the Tidelands Oil

Revenue Fund (NX 420) in the Long Beach Gas and Oil Department (GO). The City will also realize an additional $7,500 per year allocated to the Uplands Oil Fund (SR 134) in the Long Beach Gas and Oil Department (GO). The revenues are not projected to be realized until FY 14. There is no local job impact associated with this action.

Approve recommendation.

CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:

PATRICK H. WEST
CITY MANAGER