MINUTE ITEM
This Calendar Item No. C81 was approved as Minute Item No. 81 by the California State Lands Commission by a vote of 3 to Ø at its 9-17-01 meeting.

CALENDAR ITEM
C81

A 57, 58

09/17/01
W 13001
D. Mercier
M. Voskanian

S 29

CONSIDER APPROVAL OF THE 2001 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT WILMINGTON OIL FIELD, LOS ANGELES COUNTY

APPLICANT:

City of Long Beach
Attn.: Mr. Harry Taboada, City Manager
333 West Ocean Blvd., 13th Floor
Long Beach, CA 90802

BACKGROUND:

Pursuant to provisions of Chapter 29, Statutes of 1956, First Extraordinary Session, Long Beach Energy Services (formerly the Long Beach Gas Department) shall receive into its system all Long Beach Tidelands dry gas which it can utilize economically and shall pay to the State the reasonable wholesale market value for such dry gas. Chapter 29 also provides that the reasonable wholesale market value of Tidelands dry gas shall be determined from time to time jointly by the City of Long Beach (City) and the California State Lands Commission (Commission).

Throughout the past several decades, market changes, regulatory changes and processing changes have precipitated redeterminations of the price to be paid by the City for Tidelands dry gas. The latest pricing agreement was made in 1992 and controls the price that the City must pay for the Tidelands dry gas it currently receives. Under this 1992 agreement, the City shall pay monthly to the State for all Tidelands dry gas taken into the system of its municipal gas department a price per MMBtu equivalent to 110 percent (110%) of the Long Beach Weighted Average Cost of Gas (Long Beach WACOG) in effect at the time the Tidelands dry gas is taken by the City. The Long Beach WACOG is defined in the 1992 agreement as the monthly weighted average cost per MMBtu of purchases by the City's Gas Department of interstate gas delivered into the Southern California Gas Company's (Socal) system and of locally produced offshore gas other than Tidelands dry gas. The agreement provides that the price may be renegotiated if throughout a consecutive three-month period, the Long Beach WACOG differs by more than 15 percent (15%) from comparable short-term, wholesale gas prices prevailing and used in actual sales transactions for substantial quantities of dry gas consumed in the Los Angeles Basin. Since November 1, 2000, the Long Beach WACOG has exceeded, by far more than 15 percent (15%), Southern California Gas Company's cost of purchases of interstate gas for sales to its core customers (Socal core WACOG).

The City's initial request for price renegotiations came in a letter dated December 19, 2000. In that request, the City stated that the 10 percent (10%) of Long Beach WACOG transportation factor was creating a significantly "higher-than-market" price for the Tidelands dry gas. In 1992, 10 percent (10%) was a reasonable approximation of half of the transportation savings. Ten percent (10%) of the Long Beach WACOG now far exceeds the transportation savings and imposes an inequity on the City.

During the February 5, 2001, Commission meeting, the Commission approved an interim amendment to the 1992 dry gas pricing agreement effective December 19, 2000, the date the City of Long Beach wrote to the State requesting relief from the 10 percent (10%) of Long Beach WACOG transportation cost imposition. The interim amendment provides that the price per MMBtu shall include one-half of the total intrastate transportation costs actually paid by the City to Southern California Gas Company per MMBtu on the gas it transports through the Southern California Gas Company pipeline system, currently approximately $0.15 (50% of intrastate transportation costs). Further, retroactive to January 2001, the City shall pay to the State under the interim amendment a price per MMBtu equivalent to 100% of the SoCal core WACOG. The Commission authorized this interim amendment to continue in effect pending the April 2001 Commission meeting or until a permanent agreement was reached.

At the April 24, 2001, Commission meeting, State Controller Kathleen Connell expressed concern about the potential state liability (value-at-risk) related to an interruption penalty clause contained in the agreement. The penalty clause stated that if the supply of Tidelands gas is interrupted through either interruptible contracts or rolling blackouts the State would be charged either a balancing penalty or a spot market purchase penalty. The penalty would be the difference between the City's spot market purchase costs and the SCG WACOG. After further negotiating with Long Beach Energy Services, this clause has been removed from the agreement.

STAFF RECOMMENDATIONS

In order to correct the inequities being suffered by the City because of current energy market changes, beyond the City's control, Commission staff recommends that the City and State replace the 1992 Long Beach Tidelands Dry Gas Agreement with a new agreement, the 2001 Long Beach Tidelands Dry Gas Agreement containing the following major provisions:

1. Retroactive to November 1, 2000, the City will pay monthly to the State for Tidelands dry gas taken into the system of its municipal gas department a price per MMBtu equivalent to 100 percent (100%) of the SoCal core WACOG.

2. In addition, the price per MMBtu would also include one-half of the total intrastate transportation costs actually paid by the City to Southern California Gas Company per MMBtu on the gas it transports through the Southern California Gas Company pipeline system, currently approximately $0.15 (50% of intrastate transportation costs).

3. In order to account for making the price for Tidelands dry gas provided for under the 2001 Long Beach Tidelands Dry Gas Price Agreement (2001 Agreement) retroactive to November 1, 2000, the City would reduce monthly dry gas payments to the State, without any consideration for interest earned or due, until it has fully recouped the retroactive adjustments.

4. A ceiling and a floor for the price paid for gas from Long Beach Unit as follows: The ceiling will be $7.51/MMBTU and the floor will be $2.92/MMBTU.

5. All savings on the price of Tidelands dry gas realized by the Long Beach Energy Services as a result of replacing the 1992 Agreement

with the 2001 Agreement shall be passed directly to the customers of the Long Beach Energy Services.

6. The 2001 Agreement will remain in effect until January 1, 2003, after which a new agreement will need to be renegotiated. During the term of the 2001 Agreement, either party may demand a renegotiation, by giving 30 days written notice, whenever it believes that the price provided in the 2001 Agreement no longer reflects the reasonable wholesale market value of dry gas in the Los Angeles Basin. If the Long Beach Unit desires to purchase all Tidelands dry gas for a power plant or for other field use, the 2001 Agreement will terminate on 90 days written notice from the State.

7. The 2001 Agreement could be used as a basis for future agreements, but the components of this agreement do not create a precedent, which must be contained in future agreements.

STATUTORY AND OTHER REFERENCES:

Chapter 29, Statutes of 1956, First Extraordinary Session.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by the CEQA and the State CEQA Guidelines.

   Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.

EXHIBITS:

A. Letter from City of Long Beach requesting renegotiation of the 1992 Long Beach Tidelands Dry Gas Price Agreement.
B. 1992 Long Beach Dry Gas Price Agreement
C. Comparison of State Transportation Compensation and City Actual Transportation Costs for Dry Gas.
D. Proposed 2001 Long Beach Dry Gas Price Agreement
E. Comparison of LBU WACOG and SCG WACOG

F. Historical SCG WACOG Price Two Standard Deviations Analysis
G. Historical SCG WACOG Price Histogram
H. U.S. Natural Gas Consumption by Sector History and Forecast
I. Historical Drilling Gas Wells
J. Department of Energy Natural Gas Spot Price Forecast

PERMIT STREAMLINING ACT DEADLINE:
N/A

RECOMMENDED ACTION:
IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

APPROVE THE 2001 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT SUBSTANTIALLY IN THE FORM ATTACHED HERETO AS EXHIBIT D.

AUTHORIZE THE EXECUTIVE OFFICE OR HIS DESIGNEE TO EXECUTE THE AGREEMENT ON BEHALF OF THE COMMISSION.

Exhibit A

CITY OF LONG BEACH

W 13001

OFFICE OF THE CITY MANAGER

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (562) 570-6711 FAX (562) 570-6583

HENRY TABOADA
CITY MANAGER

December 19, 2000

Mr. P. ~~M.~~ B. Mount II
Chief, Division of Mineral Resources Mgmt.
State of California
State Land Commission
200 Oceangate, 12 Floor
Long Beach, CA 90802

Subject: 1988 and 1992 Long Beach Tidelands Dry Gas Price Agreements between the City of Long Beach and the State Lands Commission

Dear Mr. Mount:

The City of Long Beach (City) requests a renegotiation of the 1992 Long Beach Tidelands Dry Gas Price Agreement (1992 Agreement) with the State Lands Commission (State Tidelands). The City and State Tidelands entered into the 1992 Agreement after the pricing methodology of the 1988 Long Beach Tidelands Dry Gas Price Agreement became obsolete due to industry changes impacting the pricing formula. Recent changes in the industry's intrastate transportation rates and wholesale gas prices have now rendered the pricing methodology of the 1992 Agreement obsolete. We believe that the intent of the referenced Agreements was not to bring economic harm to either party and that the current market situation warrants a renegotiation of the 1992 Agreement.

Section 5 of the 1992 Agreement requires the City's Gas Department to purchase all State Tidelands dry gas that can be economically utilized by the City's Gas Department. The City purchases all of the Tidelands dry gas that it needs to meet City requirements and does not purchase other gas unless the amount of the available Tidelands dry gas is insufficient to meet its requirements.

The 1992 Agreement established that the reasonable wholesale market value of dry gas should include an additional factor to account for savings on intrastate transportation charges resulting from the delivery of Tidelands dry gas in Long Beach. It is this "additional factor" of 10% that is now creating a significantly "higher-than-market" price for the State Tidelands dry gas. The original intent of the 1992 Agreement provided State Tidelands a price that includes a portion of the avoided intrastate transportation charges while providing Long Beach a price that includes partial savings of the equivalent intrastate transportation charges.

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Two market conditions have recently converged: (1) a decrease in the intrastate wholesale transportation charges imposed by Southern California Gas Company on the City and (2) a significant increase in the wholesale market value of gas. The 1992 Agreement pricing methodology requires the City to pay State Tidelands 110% of the Long Beach Weighted Average Cost of Gas (WACOG); therefore, the above-mentioned factors have created unreasonably high prices for the State Tidelands dry gas over recent months. During part of 2000, the intrastate transportation charge paid by the City has been below the 10% "additional factor". Thus, the City considers such a price to be an "overpayment" by City to State Tidelands for gas deliveries when compared to other wholesale market interstate purchases, plus actual wholesale intrastate transportation. As a result, the City is requesting that the "additional factor" be renegotiated and then put into effect retroactively to reimburse the City for any excessively high prices paid to the State Tidelands.

The 1992 Agreement also states, in Section 5, that if there is any Tidelands dry gas which cannot be utilized economically by the City's Gas Department then the City shall sell such gas and pay to the State the net receipts from the sale after deducting the City's reasonable costs of handling the gas, including a transportation charge equivalent to the City's tariff rate. Based upon the uneconomical price of the State Tidelands dry gas, the City may exercise this option; however, we believe that it is in the best interest of both the City and State Tidelands to renegotiate the dry gas price as quickly as possible.

Please contact my designated representative, Elizabeth Wright, Acting General Manager of the Gas and Electric Department, at (562) 570-2001 so that contract discussions may begin as soon as possible.

Sincerely,

HENRY TABOADA
CITY MANAGER

EJW:bj
msw/my documents/docs/ej/state land commission

cc: Carol Shaw, Deputy City Attorney
Christopher J. Garner, Acting Director of Public Works
Dennis M. Sullivan, Director of Oil Properties

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001898

1992 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT

The City of Long Beach ("City") and the State Lands Commission ("State") entered into the 1988 Long Beach Tidelands Dry Gas Price Agreement ("1988 Agreement") which established the price to be paid by the City to the State for Long Beach Tidelands (Tidelands) dry gas that the City shall receive pursuant to section 6 of Chapter 29 of the Statutes of 1956, First Extraordinary Session. Paragraph 1 of the 1988 Agreement provides that the price shall be equivalent to the actual wholesale weighted average cost of gas purchases by Southern California Gas Company for its non-core portfolio ("SoCal Non-core WACOG") in effect at the time Tidelands dry gas is taken by the City. Paragraph 3 of the 1988 Agreement provides that if the SoCal Non-core WACOG ceases to exist, the City's payments to the State for Tidelands dry gas shall be based on any successor pricing mechanism reflecting the weighted average price per MMBtu of the Southern California Gas Company's total short-term purchases of dry gas applicable to wholesale customers, and if a mechanism for determining the weighted average price of the Southern California Gas Company's total short-term purchases of dry gas ceases to exist, then the price payable by the City to the State for Tidelands dry gas shall be equivalent to the reasonable wholesale market value of dry gas in the Los Angeles Basin as determined jointly by the City and the State.

Effective August 1, 1991, the Southern California Gas Company stopped publishing the SoCal Non-core WACOG, and has not published and is not expected to publish a successor price schedule reflecting its short-term and spot market purchases. This situation is a product of a determination by the California Public Utilities Commission to unbundle fully the services that had been provided by a public gas utility to its non-core customers; that is, to large commercial, industrial, electrical generation and wholesale customers. To facilitate this unbundling of services, the California Public Utilities Commission has precluded the Southern California Gas Company from offering a non-core price portfolio. The Southern California Gas Company now publishes only a core portfolio, which is composed primarily of long-term purchases of gas and is used for pricing gas provided to its core customers; that is, its residential and small commercial customers. As a result, the City and the State must find a means for determining the reasonable wholesale market value of dry gas in the Los Angeles Basin other than a pricing mechanism published by the Southern California Gas Company.

The City and the State believe that a fair and workable determination of the reasonable wholesale market value of dry gas in the Los Angeles Basin can be made by using as a base the monthly weighted average cost per MMBtu of purchases by the City's Gas Department of interstate gas delivered into the Southern California Gas Company's system and of locally produced offshore gas other than Tidelands dry gas. This monthly weighted average cost of gas will be referred to as the Long Beach WACOG. The City and the State believe that the reasonable wholesale market value of dry gas in the Los Angeles Basin should include an additional factor to account for the savings on intrastate transportation charges resulting from the delivery of Tidelands dry gas in Long Beach. That factor shall be a percentage of the Long Beach WACOG.

Since August 1, 1991, when the Southern California Gas Company stopped publishing the SoCal Non-core WACOG, the City has been paying the State as an interim price for Tidelands dry gas the Long Beach WACOG without any additional premium. The City and the State have agreed that this interim price shall be adjusted retroactively to reflect the final price when agreement is reached on that final price.

Therefore, the City and the State agree as follows:

1. Beginning August 1, 1991, the City shall pay monthly to the State for Tidelands dry gas taken into the system of its municipal gas department a price per MMBtu equivalent to 110% of the Long Beach WACOG, as defined above, that is in effect at the time the Tidelands dry gas is taken by the City. In the event the actual Long Beach WACOG is not fully ascertainable when the City's payment for Tidelands dry gas is due, the City shall make

the payment using its best estimate of the Long Beach WACOG and adjust the payment when the Long Beach WACOG has finally been determined. The City shall adjust retroactively the Long Beach WACOG to reflect adjustments made by suppliers or pipelines.

2. The additional payment that will be required from the City by virtue of using 110% of the Long Beach WACOG retroactively to August 1, 1991, shall be made to the State without interest no later than 30 days from the date this agreement is executed by both parties. Any portion of this additional amount that is not paid when due shall bear simple interest from the due date at the rate of 12% per annum.

3. The City shall provide to the State with each monthly payment and adjustment for Tidelands dry gas, a schedule or schedules showing the components of the Long Beach WACOG upon which the payment or adjustment was based. In addition, the City shall make available to the State at all reasonable times all contracts, correspondence and other written documentation concerning the City's gas acquisitions upon which the Long Beach WACOG is based for purposes of permitting the State to audit and validate the Long Beach WACOG.

4. If throughout at least a consecutive three-month period, the Long Beach WACOG differs by more than 15% from comparable short-term, wholesale gas prices prevailing and used

in actual sales transactions for substantial quantities of dry gas consumed in the Los Angeles Basin, either the City or the State may demand a renegotiation of the price payable for Tidelands dry gas taken by the City. The demand shall be made in writing and shall demonstrate compliance with the grounds provided in the preceding sentence for making the demand. Upon the making of a valid demand for renegotiation of the price, the City and the State shall commence within 30 days of the date of the notice, negotiations in good faith on a new pricing mechanism for Tidelands dry gas. If a new price is agreed upon, 110% of the Long Beach WACOG will be an interim price to be adjusted retroactively to reflect the newly established price from 30 days after the date of the notice demanding a price renegotiation. If no new price is agreed upon, 110% of the Long Beach WACOG will remain as the final price payable by the City for Tidelands dry gas, unless the party proposing the new price obtains a final judicial determination that the other failed to negotiate in good faith, in which case the proposed price will become the new price effective 30 days after the date of the notice to renegotiate the price.

5. The City's Gas Department shall purchase all Tidelands dry gas which can be economically utilized by the City's Gas Department and which is not required for oil field operations in the Long Beach tidelands. The City shall purchase all the Tidelands dry gas that it needs to meet its requirements and

shall not purchase other gas unless the amount of the available Tidelands dry gas is insufficient to meet its requirements. In the event there is any Tidelands dry gas which cannot be utilized economically by the City's Gas Department and is not required for oil field operations in the Long Beach tidelands, the City shall sell such gas under short-term contracts or in the spot market and shall pay to the State the net receipts from the sale after deducting the City's reasonable costs of handling the gas, including a transportation charge equivalent to the City's tariff rate as set forth in Rate Schedule 9 applicable to gas owned by others and transported or exchanged by the City's Gas Department under Section 15.36.080 of the Long Beach Municipal Code or its successor. Presently the City's Schedule 9 tariff approved transmission charge is $0.045 per therm.

6. The City and the State believe that the intent of the pricing directive in section 6 of Chapter 29 is to provide a price reflecting the reasonable wholesale market value of dry gas purchased for consumption in the Los Angeles Basin. Market conditions for dry gas in the Los Angeles Basin have changed substantially since 1956 when Chapter 29 was enacted. The statutory reference to prices prevailing from time to time at absorption plants where wet gas produced in the Los Angeles Basin is being processed, while reflective of the reasonable wholesale market value in 1956, is today not only not reflective of such value but not even operable because of the elimination of

absorption plants. Currently, the reasonable wholesale market value of dry gas delivered in the Los Angeles Basin is influenced far more by purchases of out-of-state and foreign gas than by purchases of local gas because the volume of the former far exceeds the volume of the latter. The City and the State are of the opinion that 110% of the Long Beach WACOG is reflective at this time of the reasonable wholesale market value of dry gas in the Los Angeles Basin and, therefore, that its use is contemplated by the pricing directive in section 6 of Chapter 29.

7. This agreement has been approved on behalf of the City by the Long Beach City Council and on behalf of the State by the State Lands Commission.

DATED: 9-23-92

ASSISTANT CITY MANAG
FOR: JAMES C. HANKLA
City Manager
City of Long Beach

EXECUTED PURSUANT TO SECTION 301 OF THE CITY CHARTER.

DATED: 9-30-92

CHARLES WARREN
Executive Officer
State Lands Commission

lbgas:avh 8/24/92

APPROVED AS TO FORM
Sept 21, 1992
JOHN R. CALHOUN, City Attorney
By
DEPUTY CITY ATTORNEY

FILE COPY
APPROVED:
Section Head
Legal
001905

Exhibit C
W 13001

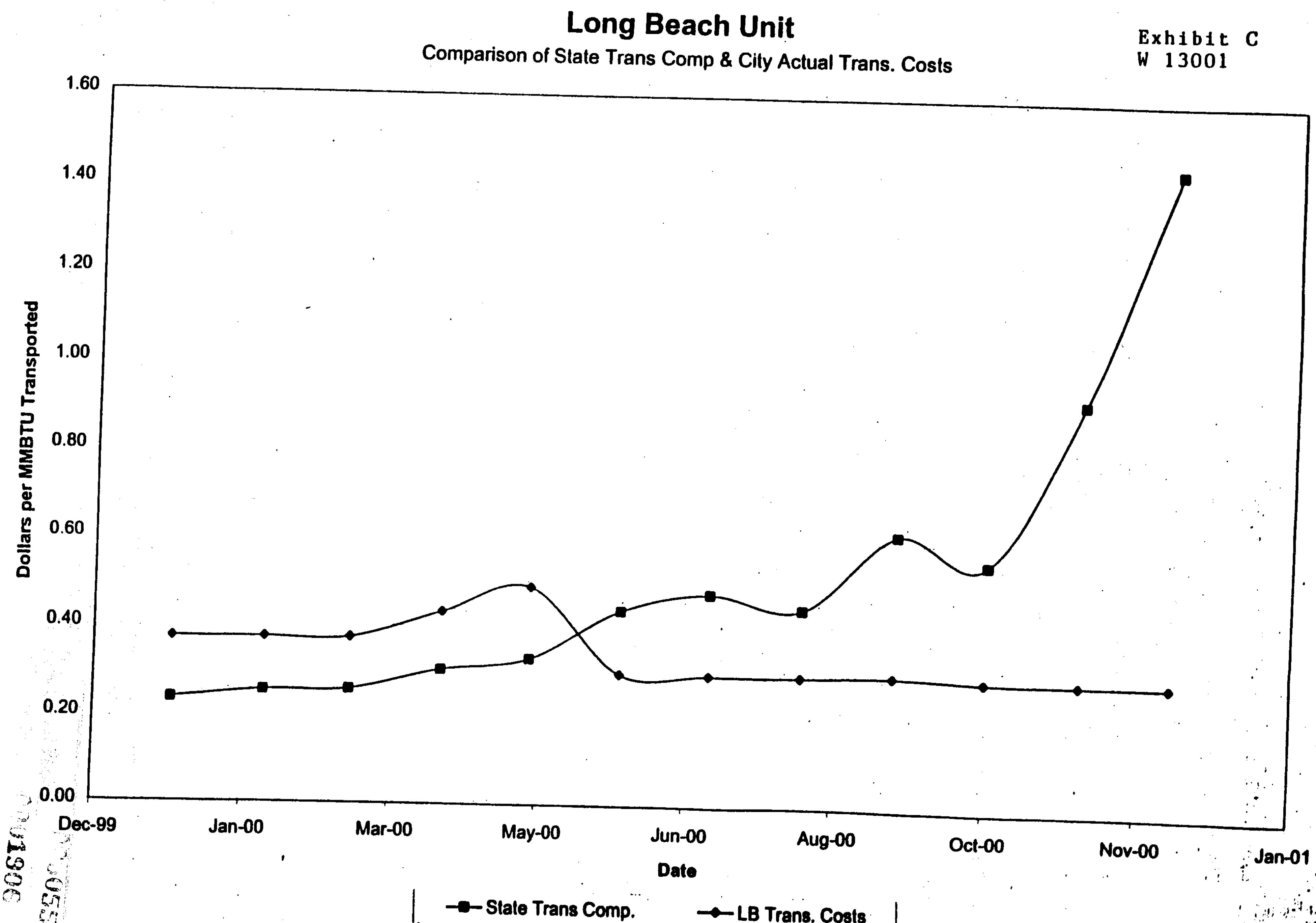


EXHIBIT D

W 13001

2001 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT

The City of Long Beach (City) and the California State Lands Commission (State) entered into the 1992 Long Beach Tidelands Dry Gas Price Agreement (1992 Agreement) which established the price to be paid by the City to the State for Long Beach Tidelands (Tidelands) dry gas that the City shall receive pursuant to section 6 of Chapter 29 of the Statutes of 1956, First Extraordinary Session. Under section 6 of Chapter 29, that price shall reflect the reasonable wholesale market value of dry gas in the Los Angeles Basin. Paragraph 1 of the 1992 Agreement provides that the price for Tidelands dry gas shall be equivalent to 110% of the City's weighted average cost of gas (Long Beach WACOG) in effect at the time the Tidelands dry gas is taken by the City. The Long Beach WACOG is defined in the 1992 Agreement as the monthly weighted average cost per MMBtu of purchases by the City's Gas Department of interstate gas deliveries into the Southern California Gas Company's system and of locally produced offshore gas other than Tidelands dry gas. Paragraph 4 of the 1992 Agreement provides that if throughout at least a consecutive three-month period, the Long Beach WACOG differs by more than 15% from comparable short-term, wholesale gas prices prevailing and used in actual sales transactions for substantial quantities of dry gas consumed in the Los Angeles Basin, either the City or the State may demand a renegotiation of the price payable for Tidelands dry gas taken by the City.

Since November 1, 2000, the Long Beach WACOG has exceeded, by far more than 15%, Southern California Gas Company's cost of purchases of interstate gas for sales to its core customers (SoCal WACOG). This is due to the fact that the Long Beach WACOG is tied to the current border price for interstate gas, while the Southern California Gas Company has been able to negotiate long-term contracts for its interstate gas supplies at prices far below the current border price. Because the SoCal WACOG is the price determinant for most gas sold in the Los

Angeles Basin, the customers of Long Beach Energy Services (formerly the Long Beach Gas Department) must pay substantially more for natural gas than customers of the Southern California Gas Company.

Long Beach has given notice of its desire to renegotiate the price payable for Tidelands dry gas under the 1992 Agreement. The City and the State believe that the disparity between the Long Beach WACOG and the SoCal WACOG is placing a substantial burden on the customers of Long Beach Energy Services and that a change to the 1992 Agreement is needed to bring the City's cost of Tidelands dry gas in line with the Southern California Gas Company's cost of its interstate supplies of dry gas. The City and the State believe that this disparity will be removed if Tidelands dry gas is priced in accordance with the SoCal WACOG, with a transportation allowance to the State to compensate it for City's savings on intrastate transportation charges resulting from delivery of Tidelands dry gas in Long Beach, expressed as a fixed amount rather than as a percentage of the price for the gas. The City and the State further believe that such a pricing mechanism will be in conformity with the intent of the pricing directive in section 6 of Chapter 29. That intent is to provide a price reflecting the reasonable wholesale market value of dry gas purchased for consumption in the Los Angeles Basin.

Therefore, the City and the State agree as follows:

1. Beginning November 1, 2000, the City shall pay monthly to the State for Tidelands dry gas taken into the system of its municipal gas department a price per MMBtu equivalent to 100% of the SoCal WACOG, as defined above, that is in effect at the time the Tidelands dry gas is taken by the City. In addition, the price per MMBtu shall also include one-half of the total intrastate transportation rate per MMBtu actually paid by the City to Southern California Gas Company per MMBtu on the gas it transports through the Southern California Gas Company's pipeline system. In the event that the actual SoCal WACOG is not known or is not fully ascertainable when the City's payment is due, the City shall make the payment using the currently published estimated SoCal WACOG and adjust the payment when the actual SoCal

WACOG is known or fully ascertainable. Notwithstanding the foregoing, the price for Tidelands dry gas payable by the City to the State shall never be more than $7.51 per MMBtu nor less than $2.92 per MMBtu.

2. In order to account for making the price for Tidelands dry gas provided for under this 2001 Long Beach Tidelands Dry Gas Price Agreement (2001 Agreement) retroactive to November 1, 2000, the City shall reduce monthly dry gas revenue payments to the State, without any consideration for interest earned or due, until it has fully recouped the retroactive adjustments.

3. With each monthly payment and adjustment for Tidelands dry gas, the City shall provide to the State a schedule or schedules showing the components of the SoCal WACOG upon which the payment or adjustment was based. In addition, the City shall make available to the State at all reasonable times all contracts, correspondence and other written documentation that it has in its possession or is entitled to obtain from third parties concerning the SoCal WACOG for purposes of permitting the State to audit and validate the SoCal WACOG.

4. If the SoCal WACOG ceases to exist, the City's payments to the State for Tidelands dry gas taken into the system of its municipal gas department shall be based on any successor pricing mechanism reflecting the weighted average price per MMBtu of Southern California Gas Company's purchases of interstate gas for sales to its core customers in the Los Angeles Basin. If such a mechanism ceases to exist altogether, then the price payable by the City to the State for Tidelands dry gas taken into the system of its municipal gas department shall be equivalent to the reasonable wholesale market value of dry gas in the Los Angeles Basin as determined jointly by the City and the State.

5. If either the City or the State believes that the SoCal WACOG or any successor price mechanism no longer reflects the reasonable wholesale market value of dry gas in the Los Angeles Basin, either the City or the State may demand a renegotiation of this 2001 Agreement.

The demand shall be made in writing and shall provide a factual basis for the belief on which the demand for a renegotiation is based. Upon the making of a valid demand for renegotiation, the City and the State shall commence within 30 days of the date of the notice, negotiations in good faith on a new pricing mechanism for Tidelands dry gas. If a new price is agreed upon, the price shall be adjusted retroactively to reflect the newly established price from 30 days after the date of the notice demanding a price renegotiation.

6. Long Beach Energy Services shall purchase all Tidelands dry gas which it can economically utilize and which is not required for oil field operations in the Long Beach Tidelands or which can be resold to the Long Beach Tidelands oil operations for other purposes. The City shall purchase all the Tidelands dry gas that it needs to meet its requirements and shall not purchase other gas unless the amount of the available Tidelands dry gas is insufficient to meet its requirements. In the event there is any Tidelands dry gas which cannot be utilized economically by Long Beach Energy Services and is not required for oil field operations in the Long Beach Tidelands or cannot be resold to the Long Beach Tidelands oil operations for other purposes, the City shall sell such gas under short-term contracts or in the spot market and shall pay to the State the net receipts from the sale after deducting the City's reasonable costs of handling the gas, including a transportation charge equivalent to the City's tariff rate as set forth in Rate Schedule 9 applicable to gas owned by others and transported or exchanged by the Long Beach Gas Department under section 15.36.080 of the Long Beach Municipal Code or its successor.

7. All savings on the price of Tidelands dry gas realized by the Long Beach Gas Department as a result of replacing the 1992 Agreement with this 2001 Agreement shall be passed directly to the customers of Long Beach Energy Services.

8. This 2001 Agreement will remain in effect only until January 1, 2003, at which time a newly negotiated agreement will take its place. If a newly negotiated agreement has not been made by January 1, 2003, this 2001 Agreement will govern the price to be paid by the City

to the State for Tidelands dry gas until a newly negotiated agreement is made, which new agreement shall be retroactive to January 1, 2003. However, this 2001 Agreement may be terminated, upon 90 days written notice from the State, whenever the Long Beach Unit requires the use of all Tidelands dry gas for a power plant or for other field use.

9. This agreement has been approved on behalf of the City by the Long Beach City Council and by the California State Lands Commission.

DATED: ______________ CITY OF LONG BEACH

____

HENRY TABOADA
City Manager

DATED: ______________ CALIFORNIA STATE LANDS COMMISSION

____

PAUL D. THAYER
Executive Officer

Exhibit E

W 13001

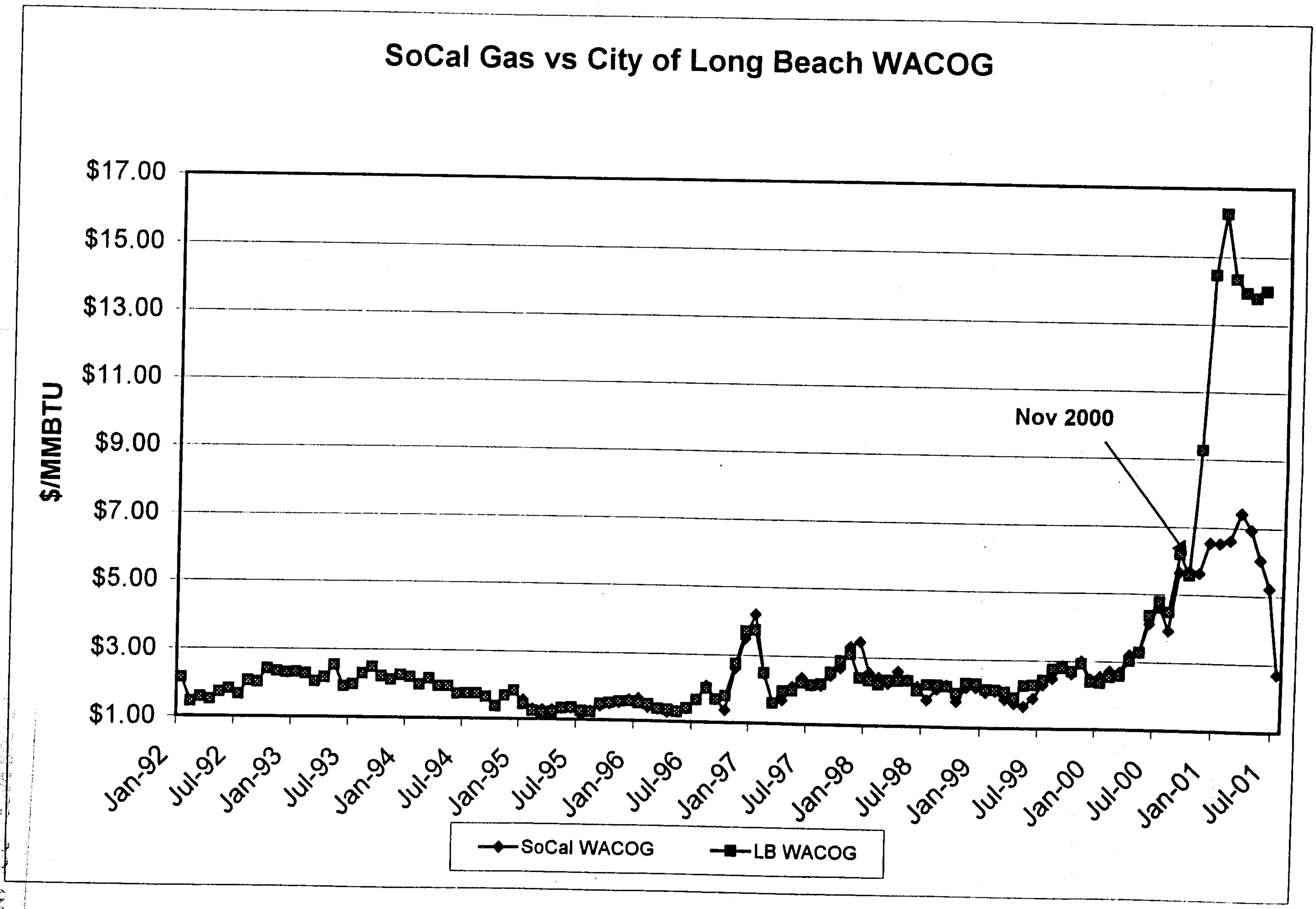


Exhibit F

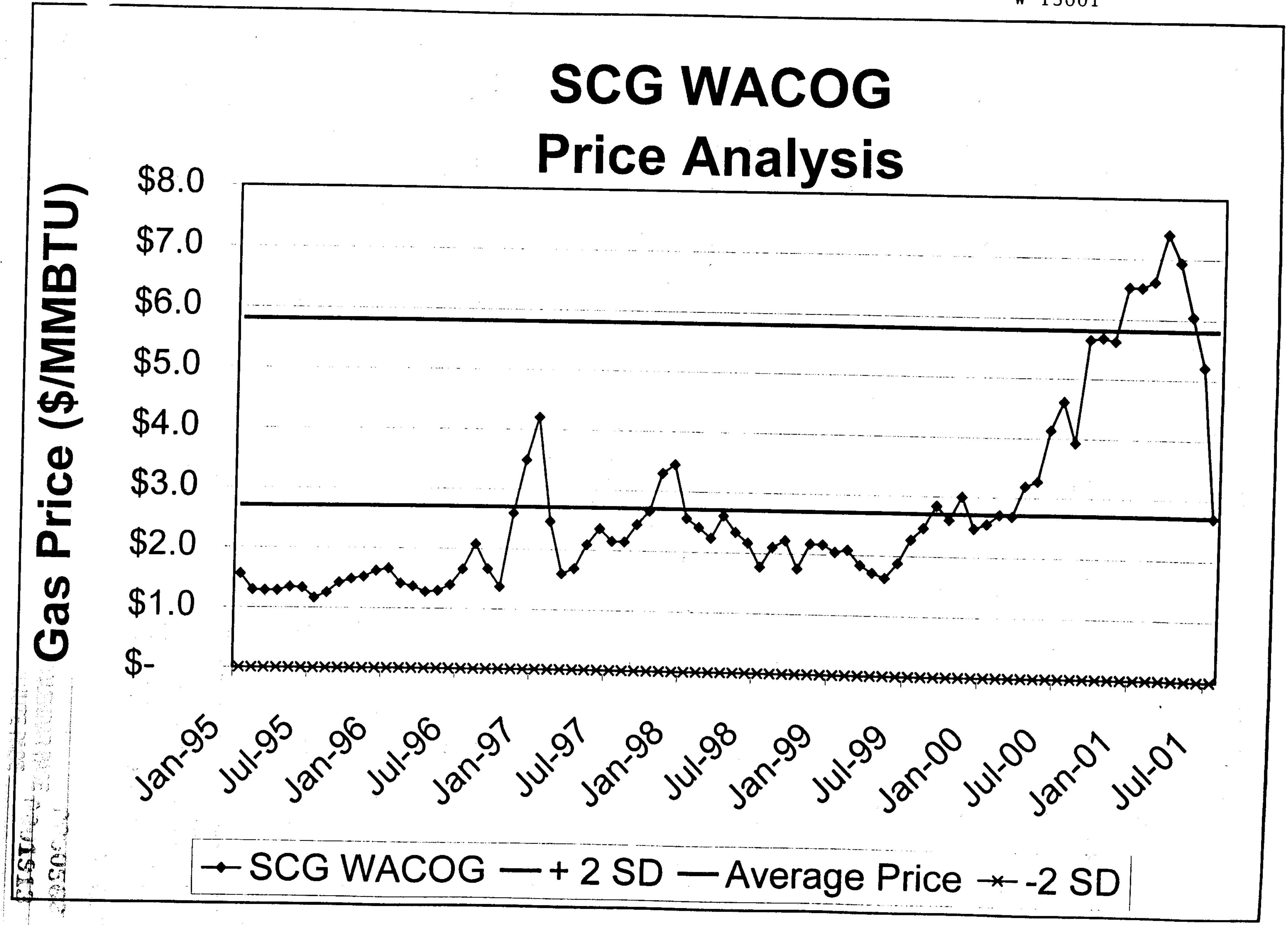

SCG WACOG
Price Analysis
Gas Price ($/MMBTU)
$8.0
$7.0
$6.0
$5.0
$4.0
$3.0
$2.0
$1.0
$-
Jan-95
Jul-95
Jan-96
Jul-96
Jan-97
Jul-97
Jan-98
Jul-98
Jan-99
Jul-99
Jan-00
Jul-00
Jan-01
Jul-01
SCG WACOG
+ 2 SD
Average Price
-2 SD

Exhibit G

W 13

SCG Price WACOG Histogram

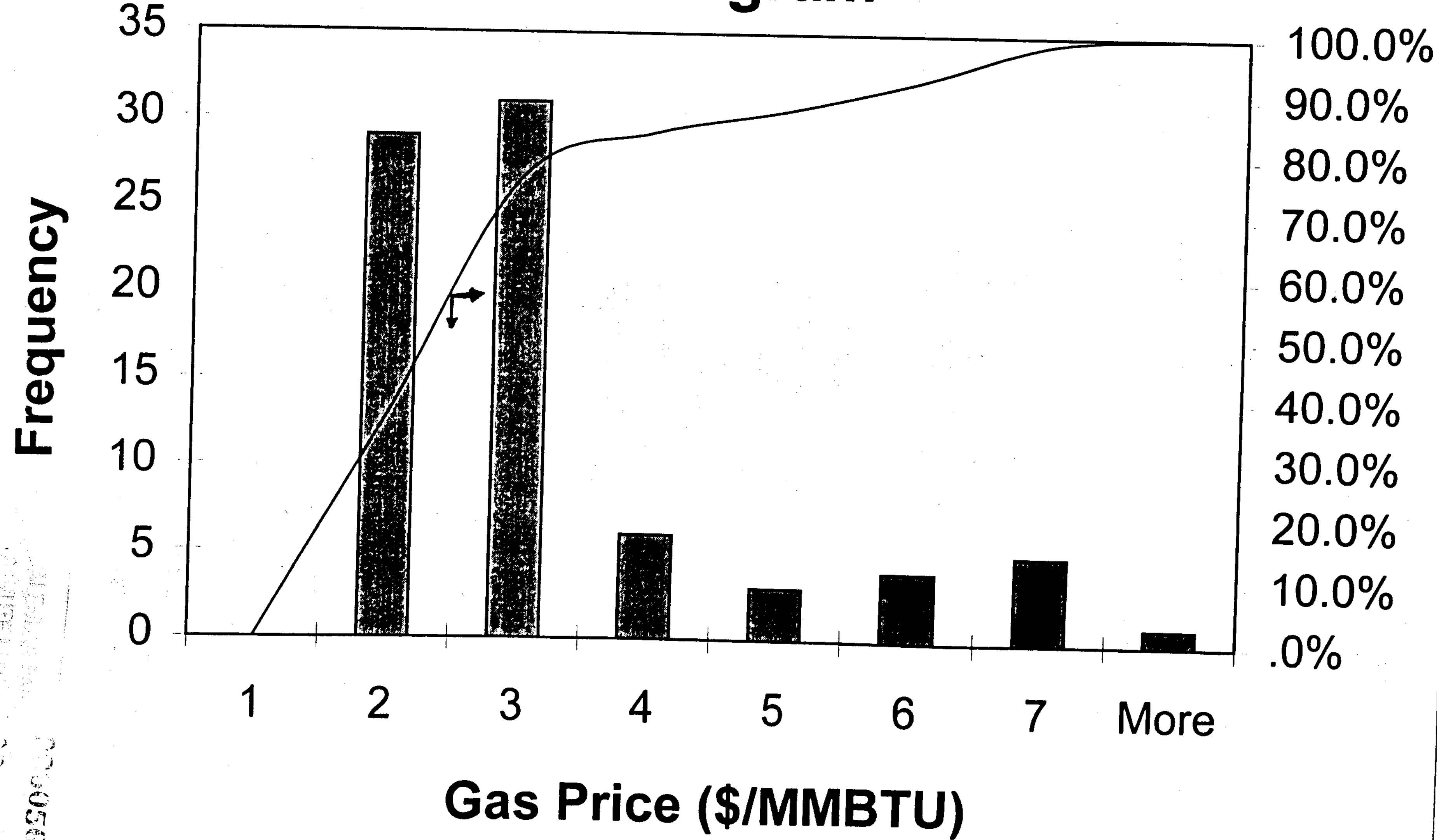
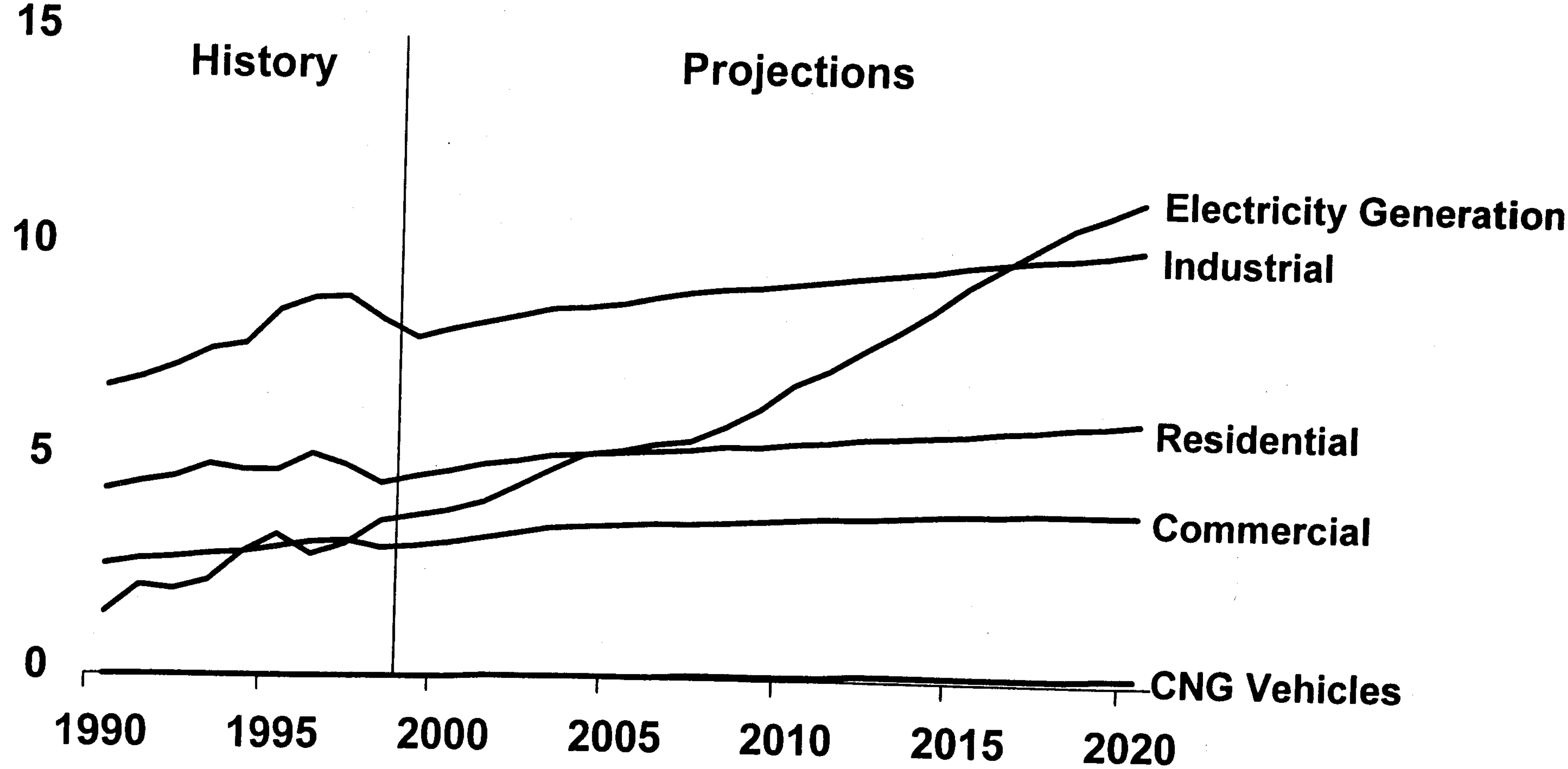


Exhibit H

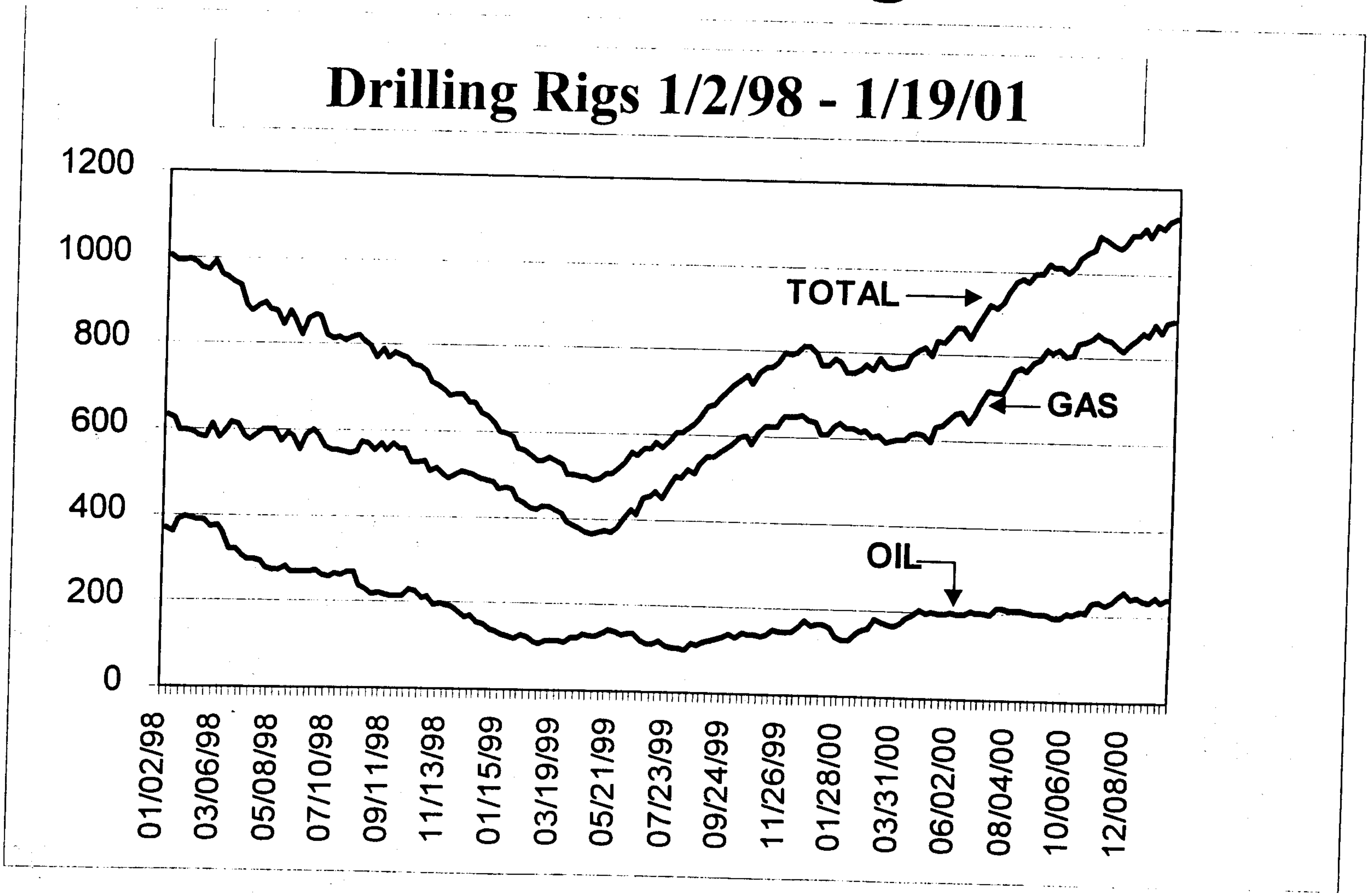
W 1300

U.S. Natural Gas Consumption by Sector, 1990-2020 (trillion cubic feet)

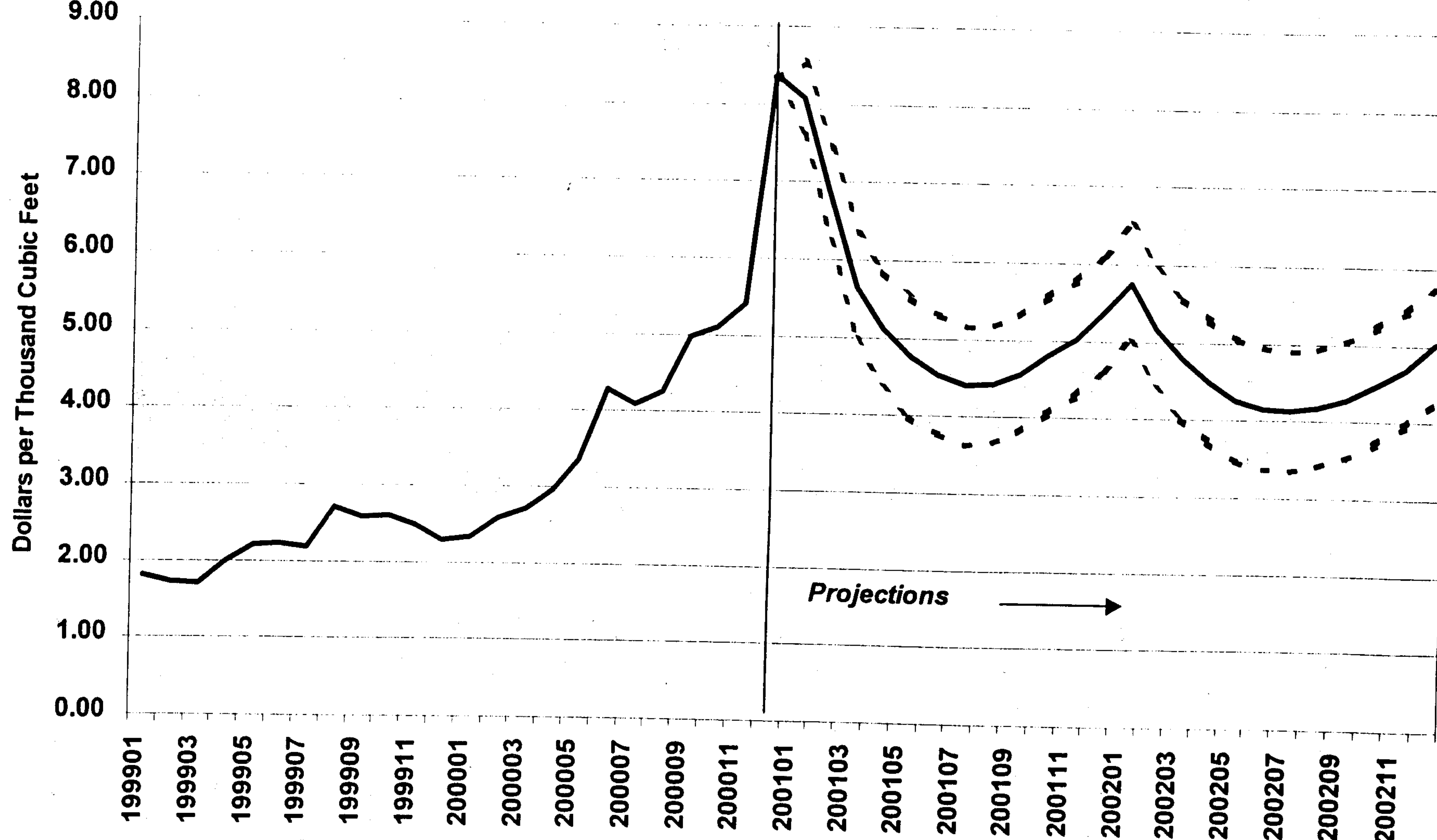


www.eia.doe.gov

Rigs Drilling Gas Wells Are At All-Time Highs



Natural Gas Spot Prices: Base Case and 95% Confidence Interval



Sources: History: Natural Gas Week; Projections: Short-Term Energy Outlook, January 2001.

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