

CALENDAR ITEM

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**CONSIDER APPROVAL OF THE 2002 LONG BEACH
TIDELANDS DRY GAS PRICE AGREEMENT
WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

City of Long Beach
Attn.: Mr. Henry 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, the Long Beach Gas Department (now Long Beach Energy Services) shall receive into its system all Long Beach tidelands dry gas which it can utilize economically and which is not required for oil field operations 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 2001 and controls the price that the City must pay for the tidelands dry gas it currently receives. Under this 2001 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 100% of Southern California Gas Company's cost of purchases of interstate gas for sales to its core customers (SoCal WACOG) that

CALENDAR ITEM NO. **C60** (CONT'D)

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.

The agreement provides that notwithstanding this price formula, 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. On February 1, 2002, the Commission staff received from Christopher Garner, the Director of Long Beach Energy Services, a letter stating that the then-current price for Tidelands dry gas measured by the contract formula (the SoCal WACOG plus one-half of the Southern California Gas Company transportation cost adjustment) was \$1.8892 per MMBtu, or about \$1.03 per MMBtu below the 2001 Agreement's floor price. Mr. Garner claimed that the disparity between 2001 Agreement's floor price and the SoCal WACOG made Long Beach Energy Services unable to continue to utilize economically the Tidelands dry gas, and proposed that Long Beach Energy Services market the Tidelands dry gas as provided in the agreement. The Commission's staff did not believe that the SoCal WACOG's falling below the 2001 Agreement's floor price created the situation contemplated by the agreement and by the statute upon which it was based where Long Beach Energy Services no longer could utilize economically the Tidelands dry gas. Nevertheless, both the Commissions' staff and Long Beach Energy Services realized that the inclusion in the 2001 Agreement of a floor price and a ceiling price was creating inequities when this provision originally had been designed to prevent inequities. Therefore, they concluded that it would be prudent to renegotiate the 2001 Agreement solely to remove both the floor and the ceiling prices.

STAFF RECOMMENDATION:

In order to remedy the inequities suffered by the City because of the current energy market changes (and to remedy any inequities that might be suffered by the State should the energy market dramatically reverse direction), the Commission's staff recommends that the Commission replace the 2001 Long Beach Tidelands Dry Gas Price Agreement with a new 2002 Long Beach Tidelands Dry Price Agreement that eliminates both the floor and ceiling prices. The new 2002 Agreement would contain the following major provisions:

1. Retroactive to February 1, 2002, the City shall pay monthly to the State for Tidelands dry gas taken into the system of its municipal

CALENDAR ITEM NO. C60 (CONT'D)

gas department a price per MMBtu equivalent to 100% of the SoCal WACOG that is in effect at the time the Tidelands dry gas is taken by the City. In addition to the price per MMBtu, the dry gas price paid to the State shall 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 (currently about \$0.15 per MMBtu).

2. In order to account for making the price for Tidelands dry gas provided for under the 2002 Agreement retroactive to February 1, 2002, the City shall reduce monthly dry gas revenue payments to the State, without any consideration for interest earned or due, until it has recouped fully the retroactive adjustments.
3. All savings on the price of Tidelands dry gas realized by Long Beach Energy Services by replacing the 1992 Long Beach Tidelands Dry Gas Agreement with both the 2001 Agreement and the 2002 Agreement shall be passed directly to the customers of Long Beach Energy Services.
4. The 2002 Agreement will remain in effect until January 1, 2003, at which time a newly negotiated agreement will take its place. However, the 2002 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 other field use.

STATUTORY AND OTHER REFERENCES:

Chapter 29, Statutes of 1956, First Extraordinary Session

PERMIT STREAMLINING ACT DEADLINE:

N/A

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15060(c)(3)), 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.

CALENDAR ITEM NO. **C60** (CONT'D)

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060(c)(3) and 15378.

EXHIBITS:

- A. Letter from Christopher Garner, Director, Long Beach Energy Services, dated February 1, 2002
- B. 2001 Long Beach Dry Gas Price Agreement
- C. Proposed 2002 Long Beach Dry Gas Price Agreement
- D. Historical SoCal WACOG with the floor and ceiling prices
- E. Historical SoCal WACOG normalized

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, SECTION 15060(c)(3) 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 2002 LONG BEACH DRY GAS PRICE AGREEMENT SUBSTANTIALLY IN THE FORM ATTACHED HERETO AS EXHIBIT C. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE THE 2002 AGREEMENT ON BEHALF OF THE COMMISSION.