MINUTE ITEM
This Calendar Item No. C60 was approved as Minute Item No. 60 by the California State Lands Commission by a vote of 3 to Ø at its 4-9-02 meeting.

CALENDAR ITEM

C60

A 57, 58

S 29

04/09/02
W 13001
D. Mercier
M. Voskanian

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

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

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.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060(c)(3) and15378.

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.

EXHIBIT A

W13001

Long Beach
ENERGY

A DEPARTMENT OF THE CITY OF LONG BEACH
2400 EAST SPRING STREET • LONG BEACH, CA 90806-2285 • (562) 570-2000 • FAX (562) 570-2008
www.lbenergy.org

CHRISTOPHER J. GARNER
DIRECTOR

February 1, 2002

Paul B. Mount II, P.E., Chief
Mineral Resources Management Division
California State Lands Commission
200 Oceangate, 12th Floor
Long Beach, CA 90802-4331

Subject: **2001 Long Beach Tidelands Dry Gas Price Agreement**

Dear Mr. Mount:

Under the 2001 Long Beach Tidelands Dry Gas Price Agreement (Agreement), a price was established for the Tidelands dry gas supplies the City of Long Beach (City) purchases from the State of California (State). This monthly price is equal to 100% of the Southern California Gas Company's (SoCalGas) Weighted Average Cost of Gas (WACOG). In addition, the price includes one-half of the total intrastate transportation rate per MMBtu paid by the City on gas it transports through the SoCalGas intrastate pipeline system. The price paid for the Tidelands dry gas shall never be more than $7.51 per MMBtu nor less than $2.92 per MMBtu.

Effective today, the SoCalGas WACOG is priced at $1.8159 per MMBtu. With the addition of one-half of the SoCalGas intrastate transportation rate, the total would be $1.8892 per MMBtu. As this is below the Agreement's price floor, the price the City would be required to pay for the Tidelands dry gas would be $2.92 per MMBtu, or over 60% greater than the SoCalGas WACOG.

Under Section 6 of the Agreement, the City has the ability to sell the Tidelands gas if the City deems that the gas cannot be utilized economically. As there currently exists a large economic disparity in the Agreement price versus the SoCalGas WACOG, it is necessary for me to exercise this option. Therefore, until further notice, I will be attempting to negotiate a short-term contract with one or more gas marketers to sell the Tidelands dry gas. If successful in these negotiations, the City will then pay 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 Long Beach Energy's current tariff rate as set forth in Rate Schedule 9.

BUSINESS OPERATIONS (562) 570-2002 | ENERGY SERVICES (562) 570-2061 | ENGINEERING/ CONSTRUCTION (562) 570-2031 | GAS SERVICES (562) 570-2111 | ENVIRONMENTAL SERVICES (562) 570-2850 | FLEET SERVICES (562) 570-5402 | ELECTRIC GENERATION (562) 570-1196

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As current gas market conditions are significantly different than last year's conditions during which the Agreement price was negotiated, I am open to any interest the State may have in renegotiating the price terms as it is likely that the current Agreement price will continue to be uneconomic for the City in the foreseeable future. If you would like to discuss this matter further, please contact me at (562) 570-2001.

Sincerely,

CHRISTOPHER J. GARNER
DIRECTOR

CJG:rj
C:\My Documents\Docs\Chris\State Lands - Renegotiate 2001 Agreement.doc

CC: HENRY TABOADA, CITY MANAGER
CHRISTINE F. SHIPPEY, DEPUTY CITY MANAGER
CAROL SHAW, DEPUTY CITY ATTORNEY
BONNI YING, ENERGY SERVICES CONSULTANT

EXHIBIT B 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

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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

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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

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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.

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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

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EXHIBIT C W 13001

PROPOSED 2002 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT

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 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

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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. Under the terms of the 2001 Agreement, 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. If 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. 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 Commission's 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.

Therefore, the City and the State agree as follows:

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 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, the price per MMBtu 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.

DATED: _____ CITY OF LONG BEACH

_____
HENRY TABOADA
City Manager

DATED: _____ CALIFORNIA STATE LANDS COMMISSION

_____
PAUL D. THAYER
Executive Officer

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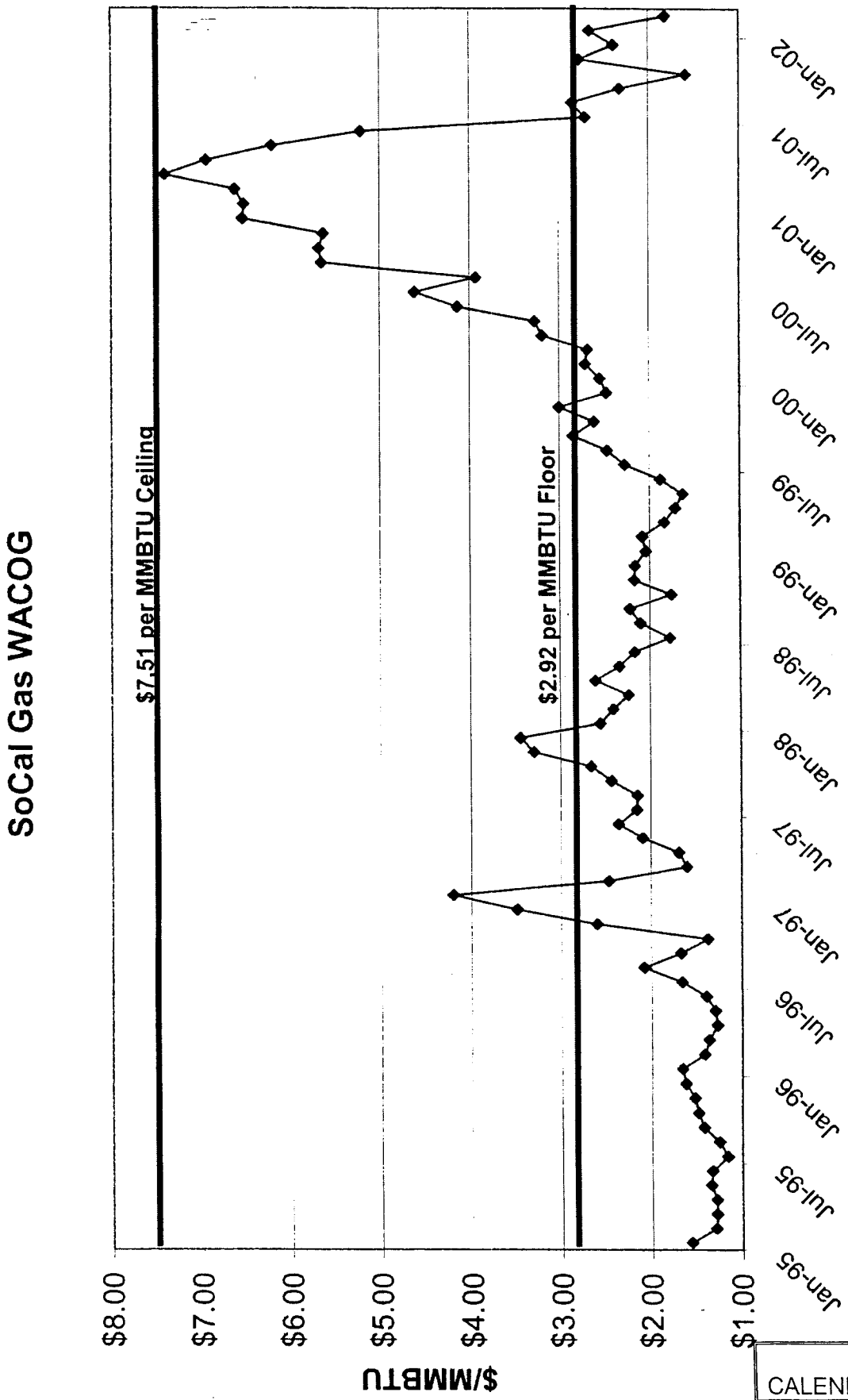
SoCal Gas WACOG
$7.51 per MMBTU Ceiling
$2.92 per MMBTU Floor
$/MMBTU
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
Jan-95
Jul-95
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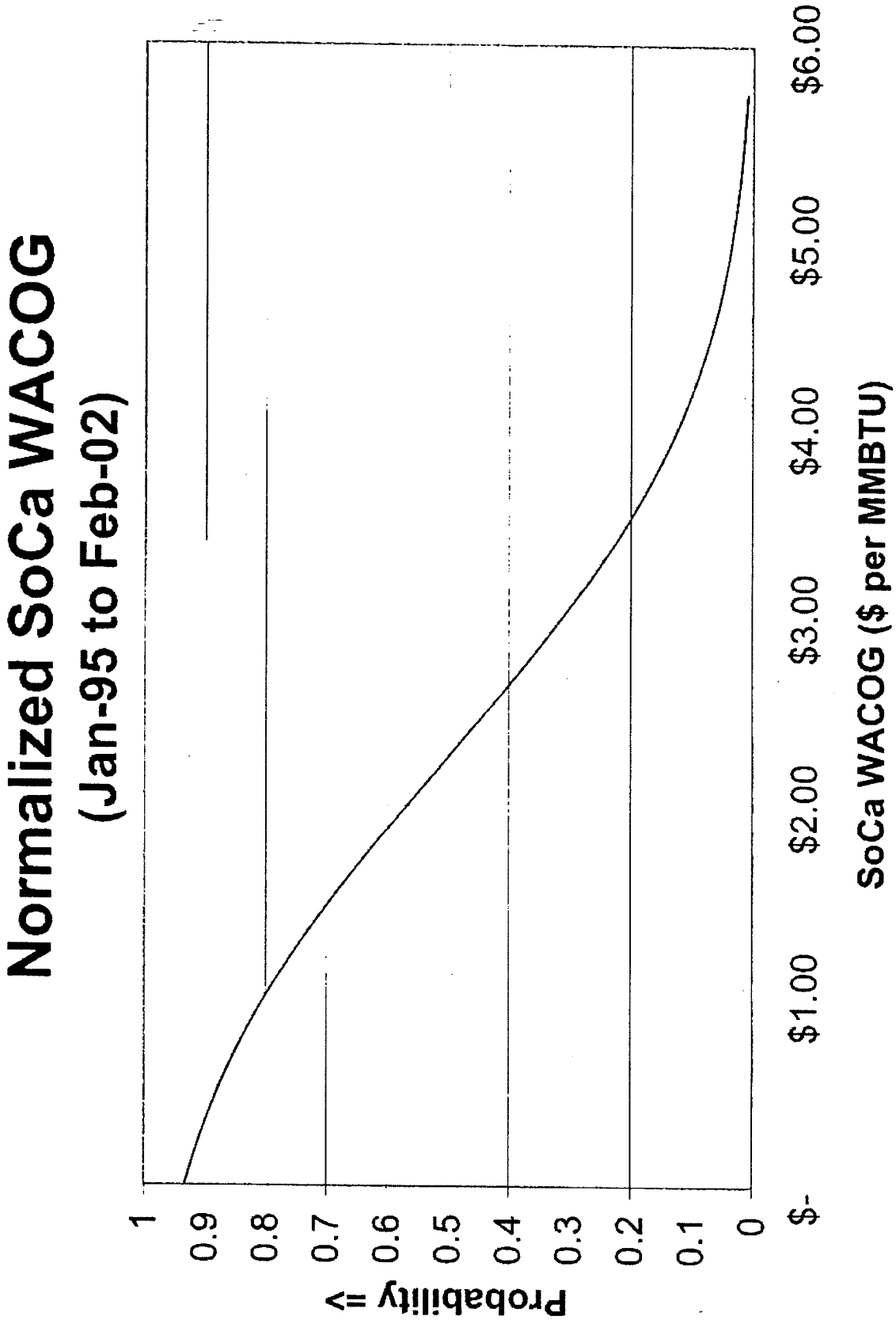
EXHIBIT E

W 13001



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