

**2003 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT**

The City of Long Beach (City) and the California State Lands Commission (State) entered into the 2001 Long Beach Tidelands Dry Gas Price Agreement (2001 Agreement) that 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.

The 2001 Agreement provides that 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 Southern California Gas Company's cost of purchases of interstate gas for sales to its core customers (SoCal WACOG) in effect at the time the Tidelands dry gas is taken by the City, plus one-half of the total intrastate transportation rate per MMBtu paid by the City to Southern California Gas Company on the gas it transports through Southern California Gas Company's pipeline system.

The 2001 Agreement originally provided that notwithstanding this price formula, the price for Tidelands dry gas payable by the City to the State never shall be more than \$7.51 per MMBtu nor less than \$2.92 per MMBtu. In April 2002, in response to a request from the City to remedy the inequities caused by the disparity between the 2001 Agreement's floor price and the SoCal WACOG, the State authorized the removal of both the floor and ceiling prices effective February 1, 2002. Therefore, since February 2002, the City has been paying to the State for Tidelands dry gas a price per MMBtu equivalent to 100% of the SoCal WACOG plus one-half of the intrastate transportation rate per MMBtu paid by the City to the Southern California Gas Company. The State and the City believe that this price formula currently conforms with the intent of the pricing directive of Chapter 6 of Chapter 29, requiring the price paid by the City to the State to reflect the reasonable wholesale market value of dry gas in the Los Angeles Basin.

By its terms, the 2001 Agreement remains in effect only until January 1, 2003, at which time a newly negotiated agreement will take its place; provided that at any time the State may terminate the 2001 Agreement, upon 90 days written notice, whenever the Long Beach Unit requires the use of all Tidelands dry gas for a power plant or other field use. The City has requested that the terms of the 2001 Agreement be extended beyond its January 1, 2003 termination date, subject to same proviso for State termination and a right of either the City or the State to seek renegotiation of the price formula. The State agrees that the current price formula should continue in use with the same termination right of the State and with a right of either party to seek renegotiation should the price fail to reflect the reasonable wholesale market value of dry gas in the Los Angeles Basin.

Therefore, the State and the City agree as follows:

1. Beginning January 1, 2003, the City shall continue, as it has since February 1, 2002, to 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 include one-half of the total intrastate transportation rate per MMBtu 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. If 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 is fully ascertainable.

2. With each monthly payment 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 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.

3. 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.

4. 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 2003 Long Beach Tidelands Dry Gas Price Agreement (2003 Agreement). The demand for renegotiation shall be made in writing and shall provide a factual basis for the belief on which the demand 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.

5. The City, acting through Long Beach Energy, shall purchase all Tidelands dry gas that it can utilize economically and that is not required for oil field operations in the Long Beach Tidelands or that can be resold to the Long Beach Tidelands oil operations for other purposes. The City, acting through Long Beach Energy, shall not purchase dry gas from sources other than the Long Beach Tidelands unless the amount of available Tidelands dry gas is insufficient to meet its requirements. If there is any Tidelands dry gas that cannot be utilized economically by Long Beach Energy 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 Long Beach

Energy under section 15.36.080 of the Long Beach Municipal Code or its successor.

6. This 2003 Agreement shall remain in effect until a new agreement to take its place is made as provided in paragraph 4 above; provided, however, that this 2003 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.

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 California State Lands Commission.

DATED: \_\_\_\_\_

CITY OF LONG BEACH

\_\_\_\_\_  
City Manager

DATED: \_\_\_\_\_

CALIFORNIA STATE LANDS COMMISSION

\_\_\_\_\_  
PAUL D. THAYER  
Executive Officer