

CALENDAR ITEM

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**CONSIDER APPROVAL OF THE 2003 LONG BEACH
TIDELANDS DRY GAS PRICE AGREEMENT
WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

City of Long Beach, Energy Department
Attn.: Mr. Christopher J. Garner, Director
2400 East Spring Street
Long Beach, CA 90806-2285

BACKGROUND:

Pursuant to provisions of Chapter 29, Statutes of 1956, First Extraordinary Session, 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 percent (100%) of Southern California Gas Company's cost of purchases of interstate gas for sales to its core customers

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(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 2001 agreement originally provided 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. 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 2002. Therefore, since February 2002, the City has been paying to the State for Tidelands dry gas a price per MMBtu equivalent to 100 percent (100%) of the SoCal WACOG plus one-half of the interstate transportation rate per MMBtu paid by the City to the Southern California Gas Company. The State and 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 the 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. The City has requested (letter attached as Exhibit A, hereto) that the terms of the 2001 agreement be extended beyond its January 1, 2003 termination date, subject to the same proviso for State termination and 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.

STAFF RECOMMENDATION:

In order to continue the current Tidelands dry gas pricing formula, Commission staff recommends that the Commission replace the 2001 Long Beach Tidelands Dry Gas Price Agreement with a new 2003 Long Beach Tidelands Dry Price Agreement. The new 2003 gas price agreement will not contain an expiration date but will have the same price formula, State termination rights and bilateral renegotiation rights as the 2001 gas price agreement.

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The major provisions that remain in the 2003 Long Beach Tidelands Dry Price Agreement are as follows:

1. 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 percent (100%) of the SoCal WACOG that is in effect at the time the Tidelands dry gas is taken by the City.
2. 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).
3. The 2003 Agreement will remain in effect until either party determines that the dry gas price formula does not represent the reasonable wholesale market value of the dry gas in the Los Angeles Basin. Also, the 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 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) and 15378.

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EXHIBITS:

- A. Letter from Christopher Garner, Director, Long Beach Energy Services, dated October 29, 2002
- B. Proposed 2003 Long Beach Dry Gas Price Agreement

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 2003 LONG BEACH DRY GAS PRICE AGREEMENT SUBSTANTIALLY IN THE FORM ATTACHED HERETO AS EXHIBIT B. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE THE 2003 AGREEMENT ON BEHALF OF THE COMMISSION.