MINUTE ITEM
This Calendar Item No. C58 was approved as Minute Item No. 58 by the California State Lands Commission by a vote of 3 to 0 at its 12-16-02 meeting.

CALENDAR ITEM

C58

A 57, 58

S 29

12/16/02
W 13001
A. Reid
M. Voskanian

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

(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.

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) and15378.

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.

EXHIBIT A

LB13001

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

October 25, 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: **2003 Long Beach Tidelands Dry Gas Price Agreement**

Dear Mr. Mount:

Under Section 8 of the 2001 Long Beach Tidelands Dry Gas Price Agreement and Section 4 of the Amendment to the 2001 Long Beach Tidelands Dry Gas Price Agreement, the City and the State may re-negotiate the 2001 Agreement by January 1, 2003.

Our respective legal council, Carol Shaw for the City of Long Beach and Alan Hagar for the State have drawn up a new agreement for 2003. We respectfully request to be added to the State Lands Commission's next meeting agenda for approval of this proposal.

As you know, once Commission approval is obtained, City Council approval will be needed. Please let me know if there are any additional steps the City needs to take. I may be reached at (562) 570-2001.

Sincerely,

CHRISTOPHER J. GARNER
DIRECTOR

CJG:AM:car

cc: Carol Shaw, Deputy City Attorney

BUSINESS OPERATIONS (562) 570-2002
ENERGY SERVICES (562) 570-2001
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

EXHIBIT B W 13001

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