# CALENDAR ITEM
# C48

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## CONSIDER APPROVAL OF PROPOSED 2010 LONG BEACH TIDELANDS DRY GAS PRICE AGREEMENT AND PROPOSED TERMINATION OF THE POWER PLANT GAS USAGE AGREEMENT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

**APPLICANT:**

City of Long Beach
Long Beach Gas and Oil Department
Attn: Mr. Christopher J. Garner, Director
211 East Ocean Boulevard, Suite 500
Long Beach, CA 90802

**BACKGROUND:**

The City of Long Beach (City) and the California State Lands Commission (Commission) entered into the 2003 Long Beach Tidelands Dry Gas Price Agreement (2003 Agreement) which sets the reasonable wholesale market value for Long Beach tidelands dry gas that the City pays to the State for tidelands dry gas that it receives and can economically utilize in its municipal gas system. Section 6 of Chapter 29 of the Statutes of 1956, First Extraordinary Session requires the Commission and the City to determine jointly from time to time the reasonable wholesale market value of dry gas for the purpose of pricing tidelands dry gas received by the City and not sold to third parties.

Since the 2003 Agreement was made, several events have occurred that have required changes in the disposition of tidelands dry gas that the City's municipal gas department, Long Beach Gas and Oil (LBGO), receives into its system which, in turn, make fitting an update of the pricing determinant in the 2003 Agreement.

Shortly after the 2003 Agreement became effective, the carbon dioxide content of dry gas produced from the Long Beach tidelands increased to a point where it no longer could be used in LBGO's gas system. As a result, the tidelands dry gas was diverted for use in the Long Beach Unit power plant until the Unit built an amine plant to reduce the carbon dioxide content of the gas so that the gas could be used in LBGO's system. In January 2009, the amine plant became operational and the tidelands dry gas can now be received into LBGO's system.

In 2007, the Long Beach Bond Finance Authority (LBBFA) entered into a long-term agreement with Merrill Lynch Commodities, Inc. (MLCI) where LBBFA prepays for a supply of natural gas. LBBFA receives the prepaid natural gas pursuant to the agreement with MLCI and delivers the gas to the City at a discounted price pursuant to a separate natural gas supply agreement.

The City recently entered into a short-term contract (delivery period no longer than three years under any transaction confirmation) with MLCI for the sale of tidelands dry gas received into LBGO's system that cannot be utilized economically by the City. The short-term contract is known as the MLCI Confirmation. The City's 2007 contract for prepaid gas makes the tidelands dry gas uneconomic for the City at its reasonable wholesale market value. Whenever any Long Beach tidelands dry gas cannot be utilized economically in the City's municipal system and is not required for oil field operations in the Long Beach tidelands, the City may sell the gas under short-term contracts like the MLCI Confirmation. The MLCI Confirmation also enables the City to free space in its system to provide gas to the Long Beach Unit power plant. The City pays to the State the MLCI Confirmation price for tidelands dry gas received into LBGO's system and sold to MLCI. The State is not a party to the MLCI Confirmation, and the MLCI Confirmation is not subject to Commission approval under the statutes governing Long Beach tidelands oil operations.

The City and the State, nonetheless, need to maintain a dry gas price agreement pursuant to which they have determined jointly the reasonable wholesale market value of tidelands dry gas. This price determination is needed to implement the agreement for valuing Long Beach tidelands shallow gas production and tidelands dry gas taken into LBGO's system when the City does not market it to third parties under short-term contracts.

The City, as it has a right to do under the 2003 Agreement, requested a renegotiation of the price determinant in the 2003 Agreement. Staff entered into negotiations with the City on a 2010 Long Beach Tidelands Dry Gas Price Agreement (2010 Agreement) and has concluded that the use of the First of the Month price minus five cents, the price used in the MLCI Confirmation, is a fair determination of the reasonable wholesale market value of dry gas. This First of the Month price is the price in effect on the first of each month for gas at the active trading point in the Los Angeles Basin in which gas enters the Southern California Gas Company (SoCalGas) system known as city-gate. The city-gate price is used widely in spot market purchases and sales and is a competitive price due to the number of players in this pooled dry gas trading market. The five-cent deduction from the First of the Month price represents the wholesale market value of the gas; the retail value would be the city-gate price itself. The First of the Month price minus five cents is comparable to the California-Arizona border price for interstate gas deliveries to SoCalGas. The proposed 2010 Agreement is attached as Exhibit A.

The City and THUMS Long Beach Company (THUMSCO), the agent for the Field Contractor for Tract 1 of the Long Beach Unit, recently entered into the Natural Gas Sale Agreement for Power Plant, a new contract for the sale to the Long Beach Unit power plant of dry gas from LBGO's system. This new contract, to which the State is not and need not be a party, supplants the Power Plant Gas Usage Agreement (Gas Usage Agreement) that was entered into in 2001 among Oxy Long Beach, Inc., THUMSCO, the City and the State when construction of the power plant had not yet begun. The Gas Usage Agreement provided the terms by which gas produced from the Long Beach Unit could be used as fuel in the power plant. The Gas Usage Agreement now needs to be terminated. Section 8.3 of the Gas Usage Agreement provides for its termination by a written instrument signed by all parties. The proposed written instrument for terminating the Gas Usage Agreement is attached as Exhibit B.

**OTHER PERTINENT INFORMATION**

1. The 2010 Tidelands Dry Gas Price Agreement only makes a determination of the reasonable wholesale market value of dry gas to be used to price tidelands dry gas received into the system of LBGO as required by Section 6 of Chapter 29. The Instrument Terminating the Power Plant Gas Usage Agreement only terminates that agreement. Neither causes a direct or indirect physical change in the environment.

2. 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 neither of these activities is a "project" as defined by 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

**EXHIBITS:**

A. 2010 Long Beach Tidelands Dry Gas Price Agreement
B. Instrument Terminating Power Plant Gas Usage Agreement

**PERMIT STREAMLINING ACT DEADLINE:**
N/A

**RECOMMENDED ACTION:**
It is recommended that the Commission:

**CEQA FINDING:**

1. Find that the activity is not subject to the requirements of 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:**

1. Approve the 2010 Long Beach Dry Gas Price substantially in the form of the agreement in Exhibit A, attached hereto.

2. Approve the termination of the Power Plant Gas Usage Agreement in the form of the instrument in Exhibit B, attached hereto.

3. Authorize the Executive Officer or his designee to execute any documents necessary to implement the Commission's action.