

MINUTE ITEM

This Calendar Item No. 36
was approved as Minute Item
No. 36 by the State Lands
Commission by a vote of 3
to 0 at its 10/30/81
meeting.

CALENDAR ITEM

36

10/30/81
Thompson

LONG BEACH TIDELANDS DRY
GAS PRICE DETERMINATION

Section 6 of Chapter 29, Statutes of 1956, First Extraordinary Session, provides that the Gas Department of the City of Long Beach shall receive into its system all dry gas derived from the Long Beach tidelands which it can economically utilize and which is not required for oil field operations. According to this statute, the price to be paid by the City for the dry gas shall be the reasonable wholesale market value which is to be determined from time to time jointly by the City of Long Beach and the State Lands Commission in light of prices for processed dry gas prevailing from time to time at absorption plants where wet gas produced in the Los Angeles Basin is being processed.

Acting pursuant to this statutory directive, the City and the Commission entered into an agreement on December 28, 1967, which provides, among other things, that the price for dry gas received by the Gas Department shall be the average price paid each month for dry gas purchased from absorption plants in the Los Angeles Basin by Pacific Lighting, adjusted for heating value. The agreement also contains a mechanism whereby either the City or the Commission may request negotiations to alter the price formula if there are unforeseen or changed circumstances relating to price, quality or quantity. The agreement provides that if the right to negotiate a new price formula is invoked, the new formula shall become effective ninety days after the notice to negotiate is given.

On February 20, 1980, the Executive Officer gave written notice to the City of the Commission's election to negotiate a new price formula on the ground that there was a changed circumstance relating to quantity in that Pacific Lighting no longer was purchasing dry gas at absorption plants in the Los Angeles Basin. The City objected to any attempt to negotiate a new price formula, contending that there were no changed circumstances allowing the Commission to seek a new price formula under the 1967 agreement. The City cited the fact that Pacific Lighting was continuing to receive gas on exchange from absorption plants in the Los Angeles Basin. Attempts at negotiation were stalled by the City's stance. However, in June 1981, all absorption plants in the Los Angeles Basin ceased operation so that no gas deliveries of any kind were made to Pacific Lighting at these plants. Both parties recognized that agreement on a new price formula now had to be achieved.

(Added 10/29/81)

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CALENDAR ITEM NO. 36 (CONTD)

The Commission's staff has negotiated a new pricing formula with the City. The new formula, which is contained in the agreement attached as Exhibit "A", provides that the price the City shall pay for tidelands dry gas shall be the weighted average of prices paid by Pacific Lighting for its purchases under long term contracts of dry gas from all processing plants in the Los Angeles Basin, adjusted for heating value. The new price formula shall be effective July 1, 1981. In agreeing to this effective date, the Commission will not be waiving its position that under the 1967 agreement the new price formula should be effective retroactively to ninety days after February 20, 1980. The staff will continue to pursue negotiations with the City in an attempt to resolve the issue of retroactively and, if there is an impasse, will return to the Commission with a request to commence litigation.

Under the old price formula, the price being paid by the City was equivalent to the annual border price because dry gas deliveries to Pacific Lighting from absorption plants were made under old contracts providing for payment of the annual border price. The annual border price is currently about \$2.40 per mcf. Under the new price formula, the City will pay about \$2.85 per mcf. This price approaches, but is not quite at, the monthly border price. At the present time, about 70 of Pacific Lighting's dry gas purchases from processing plants in the Los Angeles Basin are made under monthly border price contracts and about 30 are made under annual border price contracts. The volume of gas sold under monthly border price contracts should increase as time passes because Pacific Lighting's old contracts provide for payment of the annual border price and new contracts should provide for payment of the monthly border price. During any period when gas prices are increasing, the monthly border price will yield more money to the seller than the annual border price.

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE, AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE ON BEHALF OF THE COMMISSION, THE AGREEMENT WITH THE CITY OF LONG BEACH, A COPY OF WHICH IS ATTACHED AS EXHIBIT "A", PROVIDING A NEW FORMULA FOR DETERMINING THE PRICE TO BE PAID TO THE COMMISSION BY THE CITY FOR DRY GAS FROM THE LONG BEACH TIDELANDS RECEIVED BY THE LONG BEACH GAS DEPARTMENT.

EXHIBIT A

LONG BEACH TIDELANDS DRY GAS
PRICE AGREEMENT

Acting pursuant to section 6 of Chapter 29, Statutes of 1956, First Extraordinary Session, the City of Long Beach and the State Lands Commission entered into an agreement dated December 28, 1967 (the "1967 Agreement"), which provides a method for determining the price to be paid by the City to the Commission for Long Beach tidelands dry gas received by the Long Beach Gas Department. The City and the Commission have found the formula in the 1967 Agreement to be unworkable because of the closing of all absorption plants in the Los Angeles Basin. The City and the Commission have negotiated a new price formula to replace the formula set forth in paragraph 3 of the 1967 Agreement.

The City and the Commission agree that the price for Long Beach tidelands dry gas received each month by the Long Beach Gas Department shall be the weighted average of prices paid by Pacific Lighting for its dry gas purchases under long term contracts during the same month from all processing plants in the Los Angeles Basin. The price to be paid by the City shall be adjusted for heating value by multiplying the weighted average price paid by Pacific Lighting for its gas purchases under long term contracts from all processing plants in the Los Angeles Basin by the ratio of the B.T.U. heating value of tidelands dry gas to the weighted average B.T.U. heating value of all dry gas purchased by Pacific Lighting under long term contracts from all processing plants in the Los Angeles Basin. This new price formula shall be effective July 1, 1981.

In agreeing to an effective date of July 1, 1981, the Commission does not waive its position that under the 1967 Agreement the new price formula should be effective retroactively to ninety days after February 20, 1980. The Commission may pursue whatever rights it may have against the City regarding the retroactive application of the new price formula, and the fact that this agreement provides for an effective date of July 1, 1981, shall not be used against the Commission in any of those pursuits.

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As modified by this agreement, the 1967 Agreement remains in effect.

DATED _____

CITY OF LONG BEACH,
a municipal corporation

By _____
City Manager

DATED _____

STATE OF CALIFORNIA
STATE LANDS COMMISSION

By _____
Executive Officer

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