

LONG BEACH GAS & OIL

To safely provide price competitive natural gas services to residents and businesses, provide refuse disposal for electric power generation and manage the City and State's onshore and offshore production of oil and natural gas.

Chapter Overview

This budget chapter reflects key elements of the Long Beach Gas & Oil Department's Strategic Business Plan, which was developed as part of the City's commitment to performance management.

As part of this strategic planning process, the Department identified, with input from community stakeholders and employees, significant issues to be confronted over the next two- to five-years. Strategic objectives have also been developed as part of this effort to help guide the Department in addressing these issues. The Gas & Oil Department has also developed its program structure and a full family of program performance measures, including outcome, efficiency, demand, and output measures. The program structure and performance measures serve as the basis for the City's performance-based program budget and will add clarity to the City's budget by aligning department program information (purpose statement and listing of services), budget allocations, and performance information, all at the program level.

Please note that while the Department has completed its Strategic Business Plan, a number of the key performance measures may be new to the Department and will take time to fully develop and collect the performance information. Therefore, some performance measures are presented at this time without the corresponding performance information. As the Department is able to work toward full implementation, existing measures may be changed and/or new ones may be added.

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Service Delivery Environment

The Long Beach Gas & Oil Department (LBGO) operates the fifth largest municipally owned natural gas utility in the country, and is one of only three in the State. The gas utility continues to provide safe and reliable natural gas services to residents and businesses of Long Beach and Signal Hill, serving approximately 145,000 accounts with 150,000 meters.

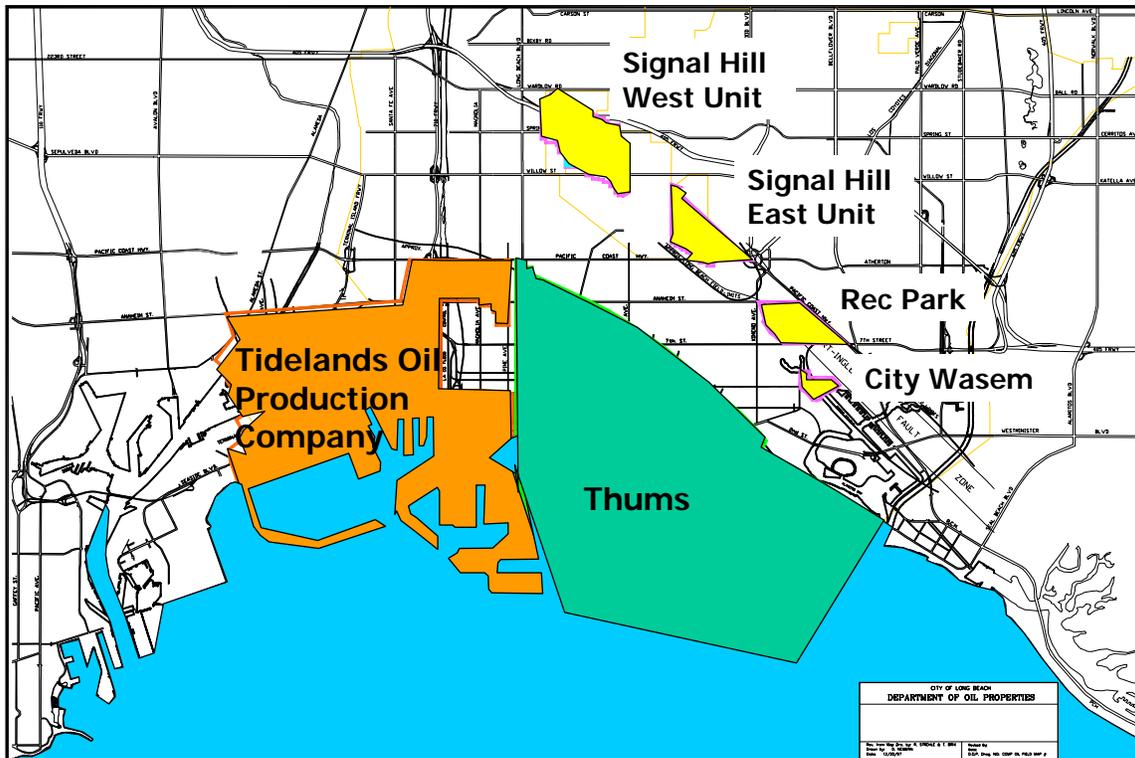
LBGO promptly responds to requests for gas service and is available 24-hours a day, seven-days a week for emergency response. LBGO rates for gas services are set comparable with other Southern California gas utilities and historically have resulted in the lowest average residential gas bills in Southern California.

The gas utility maintains gas supply agreements with both local and national providers and purchases approximately 12 billion cubic feet of gas annually to meet the needs of its customers in a secure and cost competitive manner. The majority of the gas supply purchased contains a “floor” (minimum) and a “ceiling” (maximum) on the price of the natural gas delivered to LBGO. This structure limits the customers’ exposure to extremely volatile natural gas prices and provides price protection.

LBGO also operates the Southeast Resource Recovery Facility (SERRF). SERRF is a solid waste management facility that uses mass burn technology to reduce the volume of solid waste trash by approximately 90 percent as it produces electrical energy. In an environmentally safe and responsible manner, residential and commercial solid waste is combusted in high temperature boilers to produce steam, which in turn is used to run a turbine-generator producing electricity. Some of the electricity is used to operate the facility and the remainder is sold.

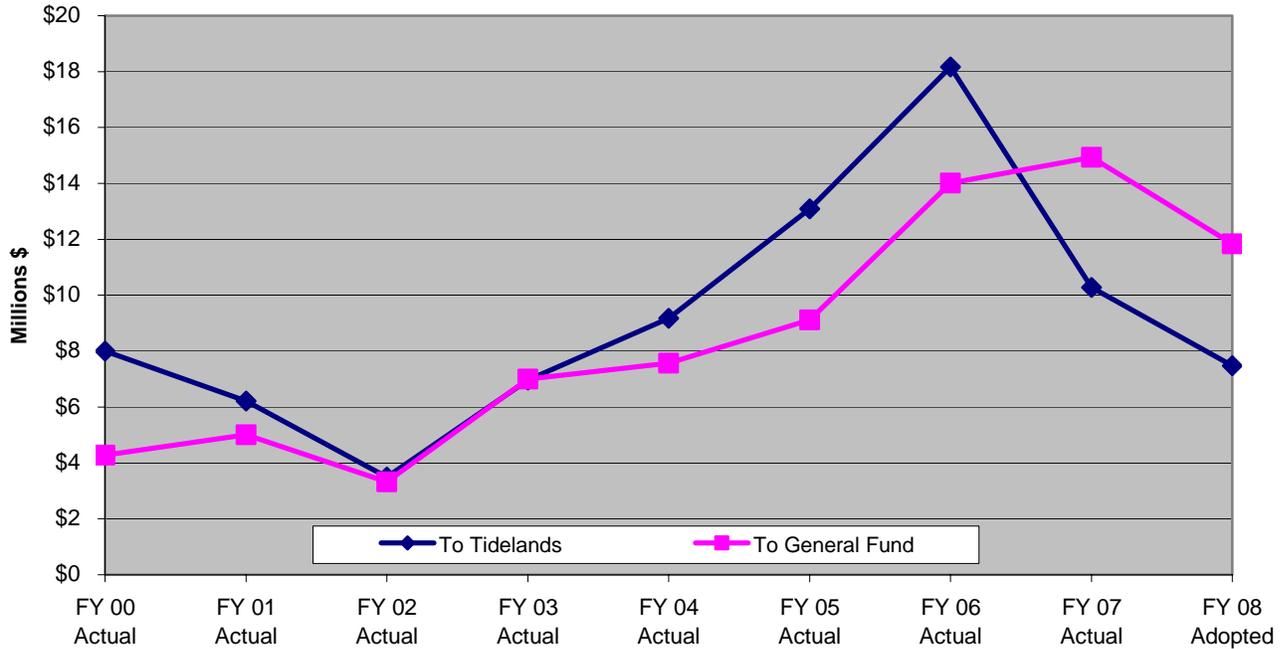
The City of Long Beach is the only municipal government in the State of California that manages oil operations. Through LBGO, the City operates the Wilmington Oil Field and has various financial interests in smaller oil fields throughout the City, such as the Signal Hill East and West Units, Recreation Park, and Marine Stadium.

Oil Operating Areas



Service Delivery Environment

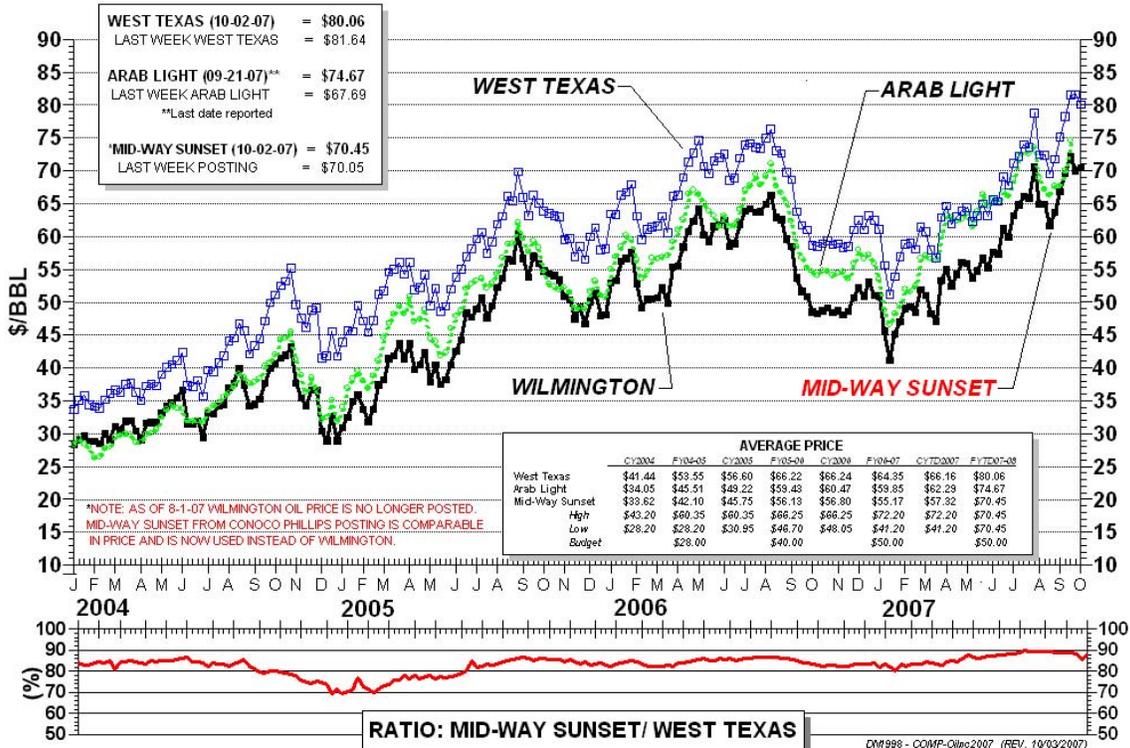
Transfers from LBGO - Oil



In the last eight fiscal years, oil operations in the Wilmington Oil Field and the City's proprietary interests had generated \$75.4 million revenues to the Tidelands Operating Fund (TOF) and \$65.2 million to the General Fund.

OIL PRICE COMPARISON

LONG BEACH GAS & OIL DEPARTMENT - OIL OPERATIONS BUREAU



Service Delivery Environment

Speculation of potential supply disruptions due to political tensions in key producing regions, record high demand and limited refining capacity have contributed to the unprecedented increase in global crude oil prices. In tandem with these prices, Wilmington crude oil, with an average gravity of 17 degrees, has increased from an average posting price per barrel of \$42.10 in FY 05 to \$70.05 in FY 07 (as of October 2, 2007). Actual Wilmington (Mid-way Sunset) oil price averaged at \$55.838 per barrel in FY 2007. Oil price for FY 08 is conservatively estimated at \$45 per barrel.

Significant Issues

1. Oil and Gas Price Volatility: The volatility of oil and gas prices impacts operations, planning and investment decisions and directly impacts revenue to the General Fund, Tidelands Operating Fund and other fund recipients (e.g., Port, State, and local land owners/mineral interests). The increase in gas prices negatively impacts the local economy and customers' disposable income through higher utility bills.
2. Workforce: The difficulty in attracting and retaining a professional and technical workforce (due to salary competition) makes it more difficult for the Department to complete its goals, plans, and projects, and, ultimately, negatively impacts services provided, increases operating costs (because of additional training and turnover), and impacts revenue to the General Fund, Tidelands Operating Fund and other fund recipients.
3. Aging Infrastructure: The aging condition of the City's gas pipelines, oil facilities and SERRF increases safety and environmental risks, the potential of significant liability and maintenance costs. This condition could decrease reliability and the value of the City's assets.
4. Regulatory Compliance: Responding to existing and new regulatory/legislative safety and environmental requirements is increasing expenditures and reducing net revenues.
5. Revenue Transfers and Capital Investments: The lack of a formal framework and formula for gas revenue transfers creates uncertainty for prudent budget planning and capital reinvestment. This needs to be addressed as forewarned by the various rating agencies in the current commercial paper issue.

Strategic Objectives

1. Maintaining Rate Comparability and Price Protection for Customers: LBGO will establish gas rates and negotiate gas supply contracts to ensure customer bill stability and maintain overall comparability with other Southern California gas utilities (Natural Gas Purchases and Sales Program).

Focus Area: Utilities; Youth: No

2. Oil Production Revenue: Through the end of 2008, given high oil prices, the Department will optimize investment in drilling and production to maximize revenue and asset value over the life of the oil field (Production and Subsidence Management Program).

Focus Area: Utilities; Youth: No

3. Workforce: The Long Beach Gas and Oil Department will work with the applicable City departments to resolve workforce hiring/retention and set a target time frame of 60 calendar days as the goal from submittal of the initial personnel requisition to the new hire being on staff. The Department will work within these timelines and current salary constraints to ensure that skilled personnel is available: (Administration Program)

- to safely, cost efficiently and in a timely manner implement the gas pipeline and meter replacement program and reduce long-term maintenance costs;
- to provide valued gas services to customers in a timely, safe and reliable manner;
- to meet safety and environmental regulations to avoid civil and criminal penalties and potential catastrophic incidents; and
- to protect the environment and properly administer the City's, contractors' and Trust obligations.

Focus Area: Utilities; Youth: No

4. Gas Infrastructure: Over the next 6 years (i.e., through 2011), the Department will spend \$60 million for capital pipeline improvements in order to increase safety and lower operating costs, with minimum disruption to neighborhoods, such that: (Pipeline Replacement Program)

- The Department will replace 100% of the 1920s and 1930s pipelines, and 20%* of the 1940s pipelines and associated meters within specified timeframes and within budget;
- By 2008, the Department will have 100% of the steel pipeline system under protection from corrosion; and
- The Department will reduce level C (most serious) corrosion-related leakage and prevent potential catastrophic accidents as measured by leakage incidents over 5 years.

Focus Area: Utilities; Youth: No

* Estimated

5. Regulatory Compliance: The Department will continue to ensure that regional, county, State, and federal safety audits result in no significant findings or fines/penalties. (Administration Program)

Focus Area: Utilities; Youth: No

6. Professional Industry Participation: By 2008, 100% of the professional staff will be participating in industry-related associations to maintain a direct and positive impact on safety and environmental legislation/regulations and to enhance the skill sets of Department staff. (Administration Program)

Focus Area: Utilities; Youth: No

7. Revenue Transfers and Capital Investments: Within the 2008 budget process, the Department, in conjunction with the Financial Management Department, will develop a reasonable, balanced, and industry standards-based formula for operating costs and capital investments to determine general fund transfer amounts as provided for in the City Charter. (Administration Program)

Focus Area: Utilities; Youth: No

Summary by Line of Business and Fund

FY 08 Budget by Line of Business

| Line of Business | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|--|--------------------|--------------------|---------------------|----------------------|--------------------|
| Natural Gas Purchases and Sales | | | | | |
| Expenditures | 82,331,841 | 96,012,380 | 73,809,670 | 77% | 93,929,401 |
| Revenues | 104,241,205 | 122,414,626 | 96,530,835 | 79% | 117,627,257 |
| FTEs | 6.00 | 5.00 | 5.00 | 100% | 6.00 |
| Natural Gas Distribution | | | | | |
| Expenditures | 18,829,989 | 19,796,328 | 21,521,015 | 109% | 23,138,364 |
| Revenues | 8,790,335 | 8,242,485 | 8,658,776 | 105% | 8,492,485 |
| FTEs | 111.50 | 111.50 | 111.50 | 100% | 115.00 |
| Customer Services | | | | | |
| Expenditures | 4,001,314 | 4,961,889 | 4,157,001 | 84% | 5,309,702 |
| Revenues | 1,967,229 | 1,881,155 | 2,278,500 | 121% | 1,899,155 |
| FTEs | 54.50 | 54.50 | 54.50 | 100% | 51.00 |
| Waste to Energy | | | | | |
| Expenditures | 44,320,061 | 46,307,693 | 45,247,283 | 98% | 53,183,519 |
| Revenues | 47,090,232 | 44,122,000 | 49,085,442 | 111% | 46,981,000 |
| FTEs | 4.00 | 4.00 | 4.00 | 100% | 4.00 |
| Oil Operations | | | | | |
| Expenditures | 297,925,466 | 237,615,676 | 219,707,436 | 92% | 142,582,709 |
| Revenues | 283,990,509 | 242,864,684 | 225,476,311 | 93% | 148,001,262 |
| FTEs | 27.00 | 27.00 | 27.00 | 100% | 28.00 |
| Administration | | | | | |
| Expenditures | 16,328,943 | 9,496,909 | 10,309,293 | 109% | 9,544,335 |
| Revenues | 6,186,829 | 1,519,885 | 4,891,726 | 322% | 1,612,810 |
| FTEs | 36.25 | 37.25 | 37.25 | 100% | 36.25 |
| Department TOTAL | | | | | |
| TOTAL Expenditures | 463,737,614 | 414,190,876 | 374,751,697 | 90% | 327,688,029 |
| TOTAL Revenues | 452,266,340 | 421,044,835 | 386,921,591 | 92% | 324,613,969 |
| TOTAL FTEs | 239.25 | 239.25 | 239.25 | 100% | 240.25 |

Note: Historical Expenditure and FTE information have been recast from the Bureau level to the Program level

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

FY 08 Budget by Fund

| Fund | Expenditures | Revenues | Net Fund Support |
|----------------------|--------------------|--------------------|------------------|
| Gas | 126,890,844 | 129,631,707 | (2,740,863) |
| SERRF | 53,183,519 | 46,981,000 | 6,202,519 |
| Tideland Oil Revenue | 126,682,384 | 127,331,785 | (649,401) |
| Upland Oil | 20,931,281 | 20,669,477 | 261,804 |
| Total | 327,688,029 | 324,613,969 | 3,074,060 |

Natural Gas Purchases and Sales Line of Business

| Program | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|--|--------------------|--------------------|---------------------|----------------------|--------------------|
| Natural Gas Purchases and Sales | | | | | |
| Expenditures | 82,331,841 | 96,012,380 | 73,809,670 | 77% | 93,929,401 |
| Revenues | 104,241,205 | 122,414,626 | 96,530,835 | 79% | 117,627,257 |
| FTEs | 6.00 | 5.00 | 5.00 | 100% | 6.00 |
| Line of Business TOTAL | | | | | |
| TOTAL Expenditures | 82,331,841 | 96,012,380 | 73,809,670 | 77% | 93,929,401 |
| TOTAL Revenues | 104,241,205 | 122,414,626 | 96,530,835 | 79% | 117,627,257 |
| TOTAL FTEs | 6.00 | 5.00 | 5.00 | 100% | 6.00 |

Note: Historical Expenditure and FTE information have been recast from the Bureau level to the Program level

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

Purpose Statement: To provide natural gas services to the businesses and residents of Long Beach and Signal Hill so they receive quality gas from secure sources at stable prices equal to or less than other Southern California gas utilities.

FY 07 Key Accomplishments:

- One of the strategic measures for the Long Beach Gas and Oil Department (LBGO) is to maintain rate comparability and price protection for our customers. In April 2006, LBGO entered into a three-year gas supply contract with Coral Energy (Shell Trading) to purchase LBGO's out-of-state gas supply to provide both price stability and price protection for LBGO's customers. The contract includes a price protection guarantee, which caps the cost of gas at \$10.50 per decatherm during the winter months when the cost of gas and customer consumption is highest. This contract also includes a fixed price for half of the customers' winter natural gas demand at \$8.20 per decatherm and a price floor of \$5.50 per decatherm as an offset to the price cap guarantee. Due to the unseasonably warm winter, and a larger than usual supply of stored natural gas in the region, LBGO did not benefit from the price protection portion of the contract this year. As such, LBGO residential bills were slightly higher than Southern California Gas Company for the winter months (November through March). It is expected that the residential bills will remain in line with SoCalGas for the remainder of the fiscal year.
- As part of the City's commitment to promote clean air protocol, as recognized by the City's designation as a California "Clean City", LBGO has implemented a new procedure to allow customers to operate in-home compressed natural gas (CNG) refueling units. Through the coordination of the Planning and Building and LBGO departments, LBGO customers can purchase natural gas from LBGO and generate CNG fuel for their low-emission CNG vehicles at their home or business with the proper equipment. In January 2007, LBGO installed its first gas meter for a business-owned CNG fueling station at Rossmoor Pastries in the City of Signal Hill to fuel their fleet of CNG trucks and one car. Several residential customers are also considering installing CNG fueling units at home.
- In compliance with the LBGO Public Awareness Program, as mandated by the federal Department of Transportation, Code of Federal Regulations, Title 49, Part 192.616, LBGO developed and mailed approximately 200,000 calendars to all households and businesses in the cities of Long Beach and Signal Hill. While the calendar highlighted some impressive views of the City of Long Beach, it was also developed to increase the public's awareness, knowledge and understanding of natural gas, its pipelines and associated hazards and how to prevent and/or respond to a gas emergency.
- Clean Energy, who took over LBGO's CNG stations in June of 2006, have upgraded the 2400 E. Spring Street and 400 W. Broadway Avenue refueling stations with state-of-the-art fuel dispensing, compressor and support equipment. Open to the public who drive CNG-powered vehicles, these stations also serve the City's CNG vehicle fleet and privately owned transportation CNG vehicle fleets. By upgrading the stations, they are providing better and faster fills, as well as continued customer service for the needs of Long Beach.

Natural Gas Purchases and Sales Program

Focus Area: Utilities

Line of Business: Natural Gas Purchases and Sales

Program Purpose Statement: To provide natural gas services to the businesses and residents of Long Beach and Signal Hill so they receive quality gas from secure sources at stable prices equal to or less than other Southern California gas utilities.

Key Services Provided: Natural Gas Purchases and Sales, Compressed Natural Gas Stations/Sales, Natural Gas Pipeline Transmission and Storage Rights (with SoCalGas), Reconciliation Reports and Payments, Transport Customer Gas Contracts (e.g., Meter Software, Monitoring, and Billing), Generate Large/Industrial Customer Gas Bills, Generate Regulatory Reports and Natural Gas Rates

FY 08 Funding Source: Gas Fund 100%

| Natural Gas Purchases and Sales | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|---------------------------------|--------------|----------------|------------------|-------------------|----------------|
| Expenditures | 82,331,841 | 96,012,380 | 73,809,670 | 77% | 93,929,401 |
| Revenues | 104,241,205 | 122,414,626 | 96,530,835 | 79% | 117,627,257 |
| FTEs | 6.00 | 5.00 | 5.00 | 100% | 6.00 |

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|--|--------------|--------------|----------------|-------------------|---------------|
| Cost of gas per therm purchased | \$0.63 | \$0.82 | \$0.57 | 70% | \$0.73 |
| # of therms of natural gas purchased | 97,700,150 | 91,027,134 | 83,591,618 | 92% | 96,058,828 |
| # of therms of natural gas expected to be used | 114,168,960 | 122,295,459 | 111,917,280 | 92% | 116,341,890 |
| Average residential monthly gas bill | \$50.26 | \$52.37 | \$45.08 | 86% | \$51.18 |

Results Narrative: The Natural Gas Purchases and Sales Program budget of \$94 million represents a \$2 million decrease from the FY 07 funding level. The decrease is largely due to a reduction in the purchase of natural gas, based on expected reduced consumption levels of LBGO residential and commercial customers, and projected commodity costs. Residential customers account for 50 percent of LBGO gas sales while commercial and industrial customers combined with transport customers account for 50 percent of LBGO gas sales. Residential customer usage is projected based on a four-year average historical usage to balance usage and weather variables. Commercial customer usage is based on most recent annual usage levels.

The FY 08 Adopted sales revenue is \$5 million less than FY 07 levels. The projected revenue reduction results from a combination of reduced sales volumes, as well as reduced gas commodity prices. Since the cost of gas is passed directly on to the LBGO customer, reduced gas prices result in corresponding reductions to sales revenue collected. In addition, reduced sales volumes result in reduced transmission revenues. Moreover, reductions in over baseline (high usage-\$0.4631 per therm) transmission charges results in larger revenue reductions than baseline (normal usage-\$0.2808 per therm) transmission charges. The adopted revenue reduction is a result of cost of gas reductions and over baseline service charge reductions.

LBGO gas utility rates are continually compared to Southern California Gas Company (SoCalGas) and other surrounding gas utilities. No rate changes are proposed for FY 08.

Natural Gas Distribution Line of Business

| Program | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|--|-------------------|-------------------|---------------------|----------------------|-------------------|
| Pipeline Operations and Maintenance | | | | | |
| Expenditures | 9,430,839 | 11,328,692 | 12,246,679 | 108% | 10,836,841 |
| Revenues | 65,924 | 80,000 | 201,518 | 252% | 80,000 |
| FTEs | 111.50 | 111.50 | 111.50 | 100% | 115.00 |
| Pipeline Replacement | | | | | |
| Expenditures | 9,399,150 | 8,467,636 | 9,274,336 | 110% | 12,301,523 |
| Revenues | 8,724,411 | 8,162,485 | 8,457,259 | 104% | 8,412,485 |
| FTEs | - | - | - | - | - |
| Line of Business TOTAL | | | | | |
| TOTAL Expenditures | 18,829,989 | 19,796,328 | 21,521,015 | 109% | 23,138,364 |
| TOTAL Revenues | 8,790,335 | 8,242,485 | 8,658,776 | 105% | 8,492,485 |
| TOTAL FTEs | 111.50 | 111.50 | 111.50 | 100% | 115.00 |

Note: Historical Expenditure and FTE information have been recast from the Bureau level to the Program level

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

Purpose Statement: To provide pipeline operation and maintenance and pipeline replacement services to the business and residents of the Long Beach area so they can receive natural gas from a pipeline infrastructure that maximizes reliability and safety.

FY 07 Key Accomplishments:

- The federal Department of Transportation (Pipeline and Hazardous Materials Safety Administration) conducted a safety audit and found no safety violations or significant issues.
- LBGO leak surveyed 100 percent of the business districts, which includes hospitals, schools and churches, along with 20 percent of the residential districts. The Code of Federal Regulations that governs pipeline safety establishes these percentage numbers as the minimum requirements for leak survey. All leaks found are classified and repaired per federal safety standards and procedures.
- LBGO entered into a contract with an outside gas pipeline contractor to replace much of the City's older pipeline (circa 1920s - 1940s) that exists in the pipeline infrastructure. This contract is part of a long-term program of work that will take approximately ten years to replace all of the 1920s and 1930s pipeline and 30 percent of the 1940s pipeline. This replacement is subject to pipeline condition and history as well as coordination with street improvement projects.
- Approximately 71,000 feet of main pipeline (the major pipeline that runs along a street) and 1,550 services (smaller pipeline that connects from the main pipeline to the customer's meter) have been replaced. Approximately 32 percent of the pipeline replaced was installed prior to 1950.
- LBGO construction personnel, in addition to normal operation and maintenance activities, replaced approximately 1,000 services and installed about 7,000 feet of main pipeline.
- 95 percent of the LBGO pipeline infrastructure is under cathodic protection for the prevention of external corrosion. This corresponds to a 31 percent increase in performance since February of 2005. Work will continue to bring the entire steel pipeline under cathodic protection.
- During FY 07, 100 percent of the 1,100 critical valves in the system were maintained.
- During FY 07, approximately 12,000 requests to locate-and-mark buried natural gas pipelines were completed.

Pipeline Operations and Maintenance Program

Focus Area: Utilities

Line of Business: Natural Gas Distribution

Program Purpose Statement: To provide design, operation, maintenance, metering, and construction services to residents and businesses of the Long Beach area so they can have safe and reliable delivery of natural gas.

Key Services Provided: Gas Meter Repairs and Removals, Gas Monitoring Services (for Quantity, Quality, and Pressure), Gas Emergency Responses, Pipeline Infrastructure Engineering Designs, Gas Line Maintenance Responses (including Inspections, Valve Maintenance, Corrosion Control, and Surveys), Gas Line Operational Responses, Gas Line Constructions, Operator Certifications, and Community Development and Redevelopment Agency Accounting Services

FY 08 Funding Source: Gas Fund 100%

| Pipeline Operations and Maintenance | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|-------------------------------------|--------------|----------------|------------------|-------------------|----------------|
| Expenditures | 9,430,839 | 11,328,692 | 12,246,679 | 108% | 10,836,841 |
| Revenues | 65,924 | 80,000 | 201,518 | 252% | 80,000 |
| FTEs | 111.50 | 111.50 | 111.50 | 100% | 115.00 |

* Amounts exclude all-years carover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|---|--------------|--------------|----------------|-------------------|---------------|
| % of annually-required miles of gas pipeline actually leak surveyed within the year | 20% | 20% | 20% | 100% | 20% |
| # of miles of gas pipeline leak surveyed | 360 | 360 | 360 | 100% | 360 |
| # of miles of gas pipeline required to be leak surveyed | 360 | 360 | 360 | 100% | 360 |
| Dollar cost/expenditure per mile of pipe leak surveyed | \$479 | \$466 | \$454 | 97% | \$494 |
| % of reported gas pipeline leaks repaired within required timeframes | 100% | 100% | 100% | 100% | 100% |
| # of Class C gas pipeline leaks repaired | 75 | 75 | 67 | 89% | 75 |

Results Narrative: The Pipeline Operations and Maintenance Program budget of \$10.8 million represents a \$0.5 million decrease from the FY 07 funding level. The decrease is a net change resulting from a mid-year budget transfer of \$2.3 million from the Pipeline Replacement Program for the GIS computer system currently under development, offset by an increase in expenditure due to negotiated employee salary increases, a reallocation of workers' compensation charges, the transfer of 3.5 FTEs from the Gas and Water Service Response Program, and an enhancement for the purchase cost for two replacement Gas Construction Crew Trucks. These resources will allow for continued operations within Department of Transportation (DOT) safety compliance.

An enhancement is included for the purchase of two replacement Gas Crew Construction Crew Trucks in FY 08 for an estimated cost of \$336,000. Due to an anomaly in the fleet capital replacement charges to LBGGO over the past 20 plus years, the replacement funds for a total of four trucks was not captured. The Gas Fund is recommending purchasing two trucks in FY 08 and two trucks in FY 09. The existing trucks range in age from 20 to 25 years in age, and are experiencing major repair costs due to mechanical failures and body rot. The new trucks have been designed to provide more ergonomic and safe operations.

Some minor fee adjustments for Construction and Engineering Support fees have been included to recover costs for services and for compatibility with local utilities. The increased funding will enable the Program to provide a safe and reliable delivery of natural gas to LBGGO customers.

Pipeline Replacement Program

Focus Area: Utilities

Line of Business: Natural Gas Distribution

Program Purpose Statement: To provide upgraded infrastructure installation and project management services to the residents and businesses of the Long Beach area so they can receive natural gas from a pipeline infrastructure that maximizes safety and reliability.

Key Services Provided: Main Pipeline Installations (and Associated Gas Services and Meter Set Assemblies), Corrosion Control System Installations, Project Management (i.e., Contract Administration, Inspections, Reviews, Documentation), Gas Meter Sets/Re-sets, Gas Meter Change-outs, and Gas Meter Upgrades

FY 08 Funding Source: Gas Fund 100%

| Pipeline Replacement | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|----------------------|--------------|----------------|------------------|-------------------|----------------|
| Expenditures | 9,399,150 | 8,467,636 | 9,274,336 | 110% | 12,301,523 |
| Revenues | 8,724,411 | 8,162,485 | 8,457,259 | 104% | 8,412,485 |
| FTEs | - | - | - | - | - |

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|--|--------------|--------------|----------------|-------------------|---------------|
| % of aging pipeline replaced | 16% | 7% | 7% | 100% | 27% |
| # of feet of aging pipeline installed/replaced* | 85,713 | 71,000 | 71,000 | 100% | 70,596 |
| # of feet of pipeline requiring replacement* | 85,713 | 71,000 | 71,000 | 100% | 70,596 |
| Dollar cost/expenditure per foot of pipeline installed/replaced* | \$78 | \$90 | \$90 | 100% | \$91 |
| # of meter installations, replacements, and upgrades completed | 4,605 | 4,605 | 5,645 | 123% | 5,125 |

* Includes pre and post 1950's pipeline

Results Narrative: The Pipeline Replacement Program budget of \$12.3 million represents a \$3.8 million increase from the FY 07 funding level. The net change is due to a mid-year budget transfer of \$2.3 million to the Pipeline Operations and Maintenance Program for the GIS computer system currently under development, offset by increased contract costs for the on-going Pipeline Replacement Project. It is projected that LBGO will contract to install 70,596 feet of new gas pipeline while removing around 82,000 feet of aging pipeline at an estimated cost of \$91 per foot in FY 08. The increased project funding will enable LBGO to complete 66 percent of the total project goals by FY 08. The Pipeline Replacement Project will ensure that LBGO customers have a safer and more reliable gas pipeline infrastructure for years to follow. Increased interest earnings are included in the adopted revenue budget.

The Department has developed a six-year strategic plan to remove 328,000 feet of aging pipeline, which includes all pre-1940 pipeline (170,000 feet) and 30 percent of the pipeline installed in the 1940s (158,000 feet). By the end of FY 08, approximately 218,786 feet or 66 percent of the aging pipeline will be removed, and 289,000 feet of new pipeline will be installed to meet current needs. Funding for the project draws on a commercial paper program.

Customer Services Line of Business

| Program | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|---------------------------------------|------------------|-------------------|---------------------|----------------------|-------------------|
| Gas and Water Service Response | | | | | |
| Expenditures | 4,001,314 | 4,961,889 | 4,157,001 | 84% | 5,309,702 |
| Revenues | 1,967,229 | 1,881,155 | 2,278,500 | 121% | 1,899,155 |
| FTEs | 54.50 | 54.50 | 54.50 | 100% | 51.00 |
| Line of Business TOTAL | | | | | |
| TOTAL Expenditures | 4,001,314 | 4,961,889 | 4,157,001 | 84% | 5,309,702 |
| TOTAL Revenues | 1,967,229 | 1,881,155 | 2,278,500 | 121% | 1,899,155 |
| TOTAL FTEs | 54.50 | 54.50 | 54.50 | 100% | 51.00 |

Note: Historical Expenditure and FTE information have been recast from the Bureau level to the Program level

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

Purpose Statement: To provide gas and water service responses, and water turn-ons and turn-offs, and customer outreach to the residents and businesses of the Long Beach area so they can receive and use a safe and reliable supply of gas.

FY 07 Key Accomplishments:

- Achieved an overall customer satisfaction rating of 89 percent via customer feedback cards.
- Responded to approximately 89,000 customer service orders for turning on and off gas services.
- Responded to approximately 45,000 customer service orders for pilot light and appliance adjustments.
- Responded to approximately 6,000 emergency calls for service.

Gas and Water Service Response Program

Focus Area: Utilities

Line of Business: Customer Services

Program Purpose Statement: To provide gas service responses, water turn-ons and turn-offs, appliance, and emergency response services, and customer outreach to the residents and businesses of the Long Beach area so they can receive and use a safe reliable supply of gas.

Key Services Provided: Customer Service Calls Responses, Gas Emergency Responses, Gas Distribution System Monitoring Responses (Pressure and Quality Control Checks/Responses), Gas and Water Turn-ons and Turn-offs, Pilot Lightings and Appliance Adjustments, Carbon Monoxide Responses, Safety and Appliance Training Sessions for Field Staff and Billing Issue Responses

FY 08 Funding Source: Gas Fund 100%

| Gas and Water Service Response | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|--------------------------------|--------------|----------------|------------------|-------------------|----------------|
| Expenditures | 4,001,314 | 4,961,889 | 4,157,001 | 84% | 5,309,702 |
| Revenues | 1,967,229 | 1,881,155 | 2,278,500 | 121% | 1,899,155 |
| FTEs | 54.50 | 54.50 | 54.50 | 100% | 51.00 |

* Amounts exclude all-years carover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|---|--------------|--------------|----------------|-------------------|---------------|
| % of gas and water service requests responded to within three business days | 100% | 100% | 100% | 100% | 100% |
| # of gas and water customer service call responses completed | 151,932 | 151,932 | 143,538 | 94% | 147,735 |
| # of gas emergency and non-emergency gas and water call requests expected | 157,802 | 157,802 | 149,201 | 95% | 153,502 |
| Dollar cost/expenditure per customer service call completed | \$32.72 | \$35.00 | \$31.31 | 89% | \$35.00 |
| % of gas and water service requests responded to as scheduled within the service call window (i.e. 4, 2 and 1 hour) | 96% | 95% | 96% | 101% | 95% |
| % of gas emergency service call requests responded to within 30 minutes during regular business hours) or within 2 hours (after regular business hours) | 66% | 90% | 84% | 93% | 90% |
| # of gas emergency service call responses completed | 5,870 | 5,870 | 5,850 | 100% | 5,889 |

Results Narrative: The Gas and Water Service Response Program budget of \$5.3 million represents a \$348,000 increase from the FY 07 funding level. The net change is due to negotiated employee salary increases, a reallocation of workers' compensation charges, and the transfer of 3.5 FTEs from the Gas and Water Service Response Program to the Pipeline Operations and Maintenance Program. The remaining resources will allow for continued operations and response times at historical levels. The quantity of gas meters throughout the City, as well as the rate of customer requests for service turn-ons and turn-offs has remained fairly consistent for many years.

Some minor fee adjustments for pilot lighting and gas service appointment fees have been included to recover costs for services and to maintain comparability to other local utilities. With level funding, the Program will continue to provide LBGO gas customers with a safe reliable supply of gas, and timely and skilled customer service response.

Waste to Energy Line of Business

| Program | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|-------------------------------|-------------------|-------------------|---------------------|----------------------|-------------------|
| Waste to Energy | | | | | |
| Expenditures | 44,320,061 | 46,307,693 | 45,247,283 | 98% | 53,183,519 |
| Revenues | 47,090,232 | 44,122,000 | 49,085,442 | 111% | 46,981,000 |
| FTEs | 4.00 | 4.00 | 4.00 | 100% | 4.00 |
| Line of Business TOTAL | | | | | |
| TOTAL Expenditures | 44,320,061 | 46,307,693 | 45,247,283 | 98% | 53,183,519 |
| TOTAL Revenues | 47,090,232 | 44,122,000 | 49,085,442 | 111% | 46,981,000 |
| TOTAL FTEs | 4.00 | 4.00 | 4.00 | 100% | 4.00 |

Note: Historical Expenditure and FTE information have been recast from the Bureau level to the Program level

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

Purpose Statement: To provide disposal services to the City of Long Beach's refuse collection, at a discounted market fee, and other refuse haulers so they can have cost-effective and local disposal capability.

FY 07 Key Accomplishments:

- SERRF processed 502,558 tons of refuse.
- SERRF sold 241,839 megawatts of electricity to Southern California Edison (SCE).
- SERRF destroyed 536,979 pounds of confiscated narcotics and drug paraphernalia for federal, State and local law enforcement agencies.

Waste to Energy Program

Focus Area: Utilities

Line of Business: Waste to Energy

Program Purpose Statement: To provide disposal services to the City of Long Beach's refuse collection and other refuse haulers so they can have cost-effective and local disposal capability.

Key Services Provided: Disposal of Solid Waste, Generate Electricity, State Recycling Credits and Recycle Waste Products

FY 08 Funding Source: SERRF Fund 100%

| Waste to Energy Program | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|-------------------------|--------------|----------------|------------------|-------------------|----------------|
| Expenditures | 44,320,061 | 46,307,693 | 45,247,283 | 98% | 53,183,519 |
| Revenues | 47,090,232 | 44,122,000 | 49,085,442 | 111% | 46,981,000 |
| FTEs | 4.00 | 4.00 | 4.00 | 100% | 4.00 |

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|---|--------------|--------------|----------------|-------------------|---------------|
| Annual revenue from receipt of refuse (in millions) | \$18.55 | \$18.21 | \$20.48 | 112% | \$20.63 |
| # of tons of waste processed | 495,793 | 470,000 | 502,558 | 107% | 475,000 |
| # of tons of waste expected to be processed | 495,793 | 470,000 | 502,558 | 107% | 475,000 |
| Dollar cost or expenditure per ton of waste processed | \$83.80 | \$99.10 | \$90.73 | 92% | \$112.50 |
| # of megawatts of electricity sold | 236,422 | 221,000 | 241,839 | 109% | 225,000 |
| Annual dollar savings to the City in waste disposal costs due to utilization of SERRF (in millions) | \$2.77 | \$3.44 | \$3.38 | 98% | \$4.28 |
| Annual revenue from energy sales (in millions) | \$26.62 | \$24.19 | \$26.08 | 108% | \$24.55 |

Results Narrative: The Waste to Energy Program includes the operation of the Southeast Resource Recovery Facility (SERRF), which is a mass-burn waste to energy facility that incinerates residential and commercial refuse. A portion of the electricity generated is used to power the SERRF facility (15 percent), while the remainder (85 percent) is sold to Southern California Edison. The Waste to Energy Program budget of \$53.2 million represents a \$7.0 million increase from the FY 07 funding level. The increase is due in part to a \$1.8 million adjustment to the operations and maintenance contract with Montenay Pacific Power Corporation, based on a contracted CPI adjustment as well as expected productivity increases. Other cost increases relate to \$5 million in transfers, refunds and payments to the County Sanitation District, City of Long Beach, City of Lakewood, as well as a \$160,000 financial payment. The facility will process an additional 5,000 tons of waste, generate an additional 4,000 Mega-watt-hours of electricity, and earn an additional \$360,000 in electricity sales and \$240,000 in refuse tip fees. Additional revenue of approximately \$1.8 million will be generated by an increase in private hauler and contract hauler refuse disposal rates. The average cost to process each ton of waste will increase by an estimated 13.4 to 14.0 percent. The Waste to Energy Program provides an environmentally friendly and cost-effective disposal service to the citizens of Long Beach and other local communities. Other added benefits to the City will also be an increased tip fee savings of \$643,000 and increased transfer to the City's Refuse Fund of approximately \$200,000 for FY 08.

Oil Operations Line of Business

| Program | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|---|--------------------|--------------------|---------------------|----------------------|--------------------|
| Planning and Contract Management | | | | | |
| Expenditures | 294,956,663 | 234,018,801 | 216,551,173 | 93% | 138,591,069 |
| Revenues | 282,310,374 | 242,864,684 | 223,495,601 | 92% | 148,001,262 |
| FTEs | 7.00 | 8.00 | 8.00 | 100% | 8.00 |
| Oil Production and Subsidence Management | | | | | |
| Expenditures | 2,968,803 | 3,596,875 | 3,156,264 | 88% | 3,991,640 |
| Revenues | 1,680,135 | - | 1,980,710 | - | - |
| FTEs | 20.00 | 19.00 | 19.00 | 100% | 20.00 |
| Line of Business TOTAL | | | | | |
| TOTAL Expenditures | 297,925,466 | 237,615,676 | 219,707,436 | 92% | 142,582,709 |
| TOTAL Revenues | 283,990,509 | 242,864,684 | 225,476,311 | 93% | 148,001,262 |
| TOTAL FTEs | 27.00 | 27.00 | 27.00 | 100% | 28.00 |

Note: Historical Expenditure and FTE information have been recast from the Bureau level to the Program level

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

Purpose Statement: To provide planning and contract management and production and subsidence management services to field contractors, government agencies and private stakeholders so the maximum economic quantity of oil and gas can be produced in an operationally safe and financially, timely, and environmentally sound manner.

FY 07 Key Accomplishments:

- Directed the supervision of the development drilling and production operations of the City contractors in the Wilmington Oil Field which produced about 39,000 barrels of oil per day and 12 million cubic feet of gas per day, yielding significant net revenue to the stakeholders in the field, including the City, the Port of Long Beach, and the State of California.
- The East and West Wilmington Units combined drilled 68 new wells adding about 6,300 barrels of oil produced per day (bopd) while investing over \$75 million in the development program. The development program added millions of additional barrels of oil reserves to the Units.
- Surveyed approximately 480 elevation benchmarks throughout the oil field to measure changes in surface elevation. City surface elevations have remained stable. The Department's active subsidence control plan coordinates subsidence control measures with oil and gas development and production to inject more water than total fluids produced.
- The City, together with the State of California and Oxy Long Beach Inc., approved an amendment to the Long Beach Unit Contractor's Agreement to modify Article 9, allowing for the inclusion of Midway Sunset Oil Field in determining oil pricing along with simplifying the Article 9 procedure.
- The City approved the Pier J Water agreement that sets forth terms for delivery and sales of injection water to Thums and to Tidelands Oil Production Company.
- Developed an action plan for the remediation of Fire Station 17 groundwater and established good working relationship with the Regional Water Quality Control Board.
- Approved and adopted an \$8 million modification and supplement of the Long Beach Unit Annual Plan.
- Negotiated a pipeline testing contract with Pacific Energy Resources, LLC and a royalty contract for the City with Terra Exploration and Production for the Rose 12 well.
- Completed the negotiations with the State of California and Oxy Long Beach concerning the \$40 million cost allocation for the Long Beach Unit Amine plant.

Planning and Contract Management Program

Focus Area: Utilities

Line of Business: Oil Operations

Program Purpose Statement: To provide oil and gas contractual negotiations and administration, compliance reviews and other services to field operating contractors and government and private stakeholders so that the maximum economic quantity of oil and gas can be produced in a safe and financially, timely, and environmentally sound manner.

Key Services Provided: Contracts Administration & Negotiations, Oil Sell-Offs, Unit Budgetary Administration and Underground Storage Tanks Mitigation

FY 08 Funding Sources: Upland Oil Fund 15%, Tideland Oil Revenue Fund 85%

| Planning and Contract Management | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|----------------------------------|-----------------|-------------------|---------------------|----------------------|-------------------|
| Expenditures | 294,956,663 | 234,018,801 | 216,551,173 | 93% | 138,591,069 |
| Revenues | 282,310,374 | 242,864,684 | 223,495,601 | 92% | 148,001,262 |
| FTEs | 7.00 | 8.00 | 8.00 | 100% | 8.00 |

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|--|-----------------|-----------------|-------------------|----------------------|------------------|
| % of actual production expenditures within contract budgeted amounts | 102% | 100% | 103% | 103% | 100% |
| # of new and existing contract and operating agreements administered | 71 | 73 | 72 | 99% | 75 |
| # of new and existing contracts and operating agreements expected to be administered | 71 | 73 | 72 | 99% | 75 |
| Dollar cost per contract and operating agreement administered | \$8,586 | \$12,516 | \$9,440 | 75% | \$11,990 |
| Dollar amount of city oil abandonment liability | \$201,361 | \$198,000 | \$194,406 | 98% | \$192,000 |
| Dollar amount of State abandonment liability (in millions) | \$0 | \$24 | \$24 | 100% | \$24 |

Results Narrative: The Planning and Contract Management Program budget of \$138.6 million represents a \$95.4 million decrease from the FY 07 funding level. The projected decrease in oil price from \$50 per barrel to \$45 per barrel and the increase in oil field expenses will result in a decrease in net revenues from oil field operations of \$94.9 million. The increase in oil field expenses is attributable to sustained oil prices, which encourage additional investment into the oil field in the way of drilling, investment well work, fracture technology and other investments. These investments have continually increased the oil field expenditure level contributing to a decreased net profit from the oil operations. These investments are planned with the expectation that the life of the oil field will be extended and that current production levels will be maintained for a longer period, thereby reducing the expected rate of decline of 12 percent per year.

As a result of the legislative amendment (AB137) to Chapter 138 of the Statutes of 1964, maintenance of the State's Abandonment Liability was transferred to the State on March 2006 and a State Trust Fund has been established. The State is required to transfer from oil revenues \$2.0 million monthly to the Trust Fund. As of September 30, 2007, the State Trust Fund has a balance of \$146.7 million.

The City's share in its proprietary interests in the FY 08 abandonment liability funding is estimated at 211,250 barrels at \$0.909 per barrel.

Oil Production and Subsidence Management Program

Focus Area: Utilities

Line of Business: Oil Operations

Program Purpose Statement: To provide petroleum engineering, subsidence, and geologic technical services to oil contractors and government and private stakeholders so that the maximum economic quantity of oil and gas can be produced in an operationally safe and environmentally sound manner.

Key Services Provided: Production Engineering, Oil Spill Prevention, Oil Production, Gas Production, Waterflood Management, Oil and Gas Reserve Management, Net Present Value of Remaining Oil Reserves Estimates, Elevation Surveys, Production and Injection Services and Reservoir Temperature/Pressure Monitoring

FY 08 Funding Source: Tideland Oil Revenue Fund 100%

| Oil Production and Subsidence Management | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|--|--------------|----------------|------------------|-------------------|----------------|
| Expenditures | 2,968,803 | 3,596,875 | 3,156,264 | 88% | 3,991,640 |
| Revenues | 1,680,135 | - | 1,980,710 | - | - |
| FTEs | 20.00 | 19.00 | 19.00 | 100% | 20.00 |

* Amounts exclude all-years carover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|--|--------------|--------------|----------------|-------------------|---------------|
| % of oil production compared to expected field decline | 108% | 100% | 107% | 107% | 100% |
| # of barrels of oil produced (in millions) | 14.46 | 13.39 | 14.3 | 107% | 12.81 |
| # of new wells expected to be drilled | 72 | 63 | 68 | 108% | 70 |
| Dollar cost/expenditure per barrel of oil | \$0.26 | \$0.29 | \$0.25 | 86% | \$0.31 |
| # of elevation benchmarks surveyed | 449 | 440 | 480 | 109% | 480 |

Results Narrative: The Production and Subsidence Management Program budget of \$4.0 million represents a \$395,000 increase from the FY 07 funding level. The increase is partially due to negotiated employee salary increases (\$170,000), as well as the addition of a Petroleum Engineer II (\$173,000) to the Subsidence Division. Following the completion of a review of the Subsidence Division, it was determined that the addition of a Petroleum Engineer II is necessary to keep up with the increased drilling and production activity in the Wilmington oil fields. The position will perform reservoir engineering services, which are critical to subsidence management and operations. These total resources will allow the operation to manage over 5,200 wells in the Wilmington field, direct the drilling of 70 wells, survey 480 benchmarks, ensure the injection of more water into the reservoir than the total fluids produced, and produce a cumulative amount of oil in excess of 12.81 million barrels. Achieving these targets will help maintain stable City surface elevations and guarantee continued profitability of the oil field that is operated in a safe and environmentally sound manner.

Administration Line of Business

| Program | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|-------------------------------|-------------------|-------------------|---------------------|----------------------|-------------------|
| Administration | | | | | |
| Expenditures | 16,328,943 | 9,496,909 | 10,309,293 | 109% | 9,544,335 |
| Revenues | 6,186,829 | 1,519,885 | 4,891,726 | 322% | 1,612,810 |
| FTEs | 36.25 | 37.25 | 37.25 | 100% | 36.25 |
| Line of Business TOTAL | | | | | |
| TOTAL Expenditures | 16,328,943 | 9,496,909 | 10,309,293 | 109% | 9,544,335 |
| TOTAL Revenues | 6,186,829 | 1,519,885 | 4,891,726 | 322% | 1,612,810 |
| TOTAL FTEs | 36.25 | 37.25 | 37.25 | 100% | 36.25 |

Note: Historical Expenditure and FTE information have been recast from the Bureau level to the Program level

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

Purpose Statement: To provide central administrative support, coordination, and direction for the entire Department.

FY 07 Key Accomplishments:

- Allocated oil net profits to the different parties in accordance with the requirements of the Unit Agreements and Unit Operating Agreements of the Wilmington Oil Field. This resulted in a \$179.9 million payment to the State of California, \$54.3 million to Oxy Long Beach Inc., and transfers to the Tidelands Operating Fund (TOF) and General Fund of \$10.3 million and \$14.3 million, respectively, in FY 07.
- Transferred an additional \$636,000 to the General Fund for the Sports Park project.
- Assisted the State of California auditors in the Optimized Waterflood Program Agreement (OWPA) audit covering the two-year period from July 1, 2004 through June 30, 2006. The audit, relating to the calculation of base oil and resulting calculations to share profits with the City and THUMS (contractor), resulted in a "NO FINDINGS" determination.
- Transferred \$11.4 million in gas revenues to the General Fund in FY 07.
- Reduced the Department's vacancy rate to 7 percent in FY 07.
- Aggressively pursued finding modified duty work within the City for injured employees, thereby reducing the number of lost work hours.

Administration Program

Focus Area: Leadership, Management and Support

Line of Business: Administration

Program Description: To provide central administrative support, coordination and direction for the entire Department.

Key Services Provided: Human Resources, Training, Risk Management, Employee Safety, Workers' Compensation, Budget and Accounting, Procurement, Billing and Collections, Contract Management, Public Information and Communications, Records Management and Executive Leadership

FY 08 Funding Sources: Gas Fund 47%, Tideland Oil Revenue Fund 53%

| Administration | Actual FY 06 | Adjusted FY 07 | Year End** FY 07 | Percent of Budget | Adopted* FY 08 |
|----------------|-----------------|-------------------|---------------------|----------------------|-------------------|
| Expenditures | 16,328,943 | 9,496,909 | 10,309,293 | 109% | 9,544,335 |
| Revenues | 6,186,829 | 1,519,885 | 4,891,726 | 322% | 1,612,810 |
| FTEs | 36.25 | 37.25 | 37.25 | 100% | 36.25 |

* Amounts exclude all-years carryover. See budget ordinance in the front section of this document.

** Unaudited

| Key Performance Measures | Actual FY 06 | Target FY 07 | Year End FY 07 | Percent of Budget | Adopted FY 08 |
|--|-----------------|-----------------|-------------------|----------------------|------------------|
| June Expenditure ETC as % of Year End Actual | 100% | 100% | 92% | 100% | 100% |
| June Revenue ETC as % of Year End Actual | 103% | 100% | 89% | 100% | 100% |
| Department Vacancy Rate | 16% | 15% | 12% | 83% | 11% |
| Overtime as % of Total Salaries | 8% | 2.8% | 7.2% | 257% | 2.5% |
| # of Workers' Comp. Claims Involving Lost Time | 34 | 31 | 1 | 3% | (a) |
| # of Lost Work Hours (Expressed in Full Time Equivalents) from Workers' Comp. During Fiscal Year | 2.11 | 1.92 | 1.04 | 54% | (a) |
| Average Reporting Lag Time (in Days) for Workers' Comp. Claims During Fiscal Year | 5 | 1 | 0.65 | 65% | 1 |

(a) Tracking systems are being developed to capture this data going forward and/or data not available.

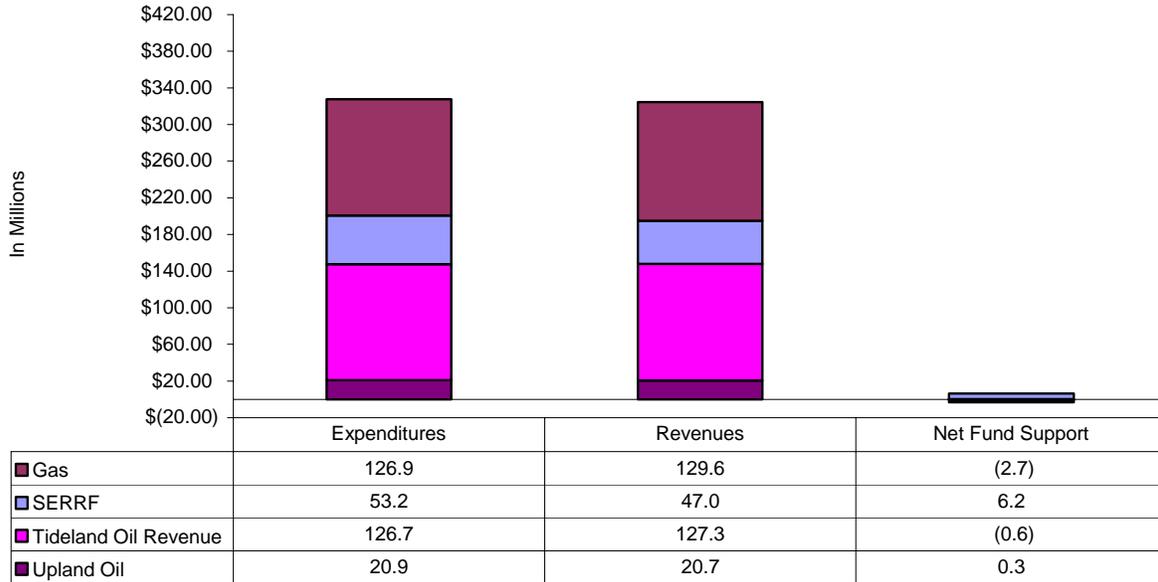
Results Narrative: The Administration Program budget of \$9.5 million represents a \$47,000 increase from the FY 07 funding level. The net change is due to increased bond and Commercial Paper financing payments (\$615,000), a reallocation of workers' compensation charges, a one-time enhancement for LBGO Administration HVAC repairs (\$300,000), and the transfer of 1.0 FTE to the Natural Gas Purchases and Sales Program.

LBGO also manages a Commercial Paper Program to finance the six-year Pipeline Replacement Project. A total of \$15.3 million has been drawn from this account through FY 07. The expected interest payments and associated fees for FY 08 will increase by approximately \$613,000, for a total of \$795,000. However, given the additional capital brought into the Gas Fund, it is expected that there will be increased interest earnings to the Gas Fund in FY 08.

The LBGO Administration building is nearly 50 years old and is facing deterioration issues with its HVAC (Heating, Ventilation and Air Conditioning) system. A temporary and short-term patch would cost approximately \$300,000. The complete system replacement could be deferred for up to two years with the implementation of the temporary patch. It is recommended to proceed with the short-term repairs to the HVAC system to provide an immediate remedy for the occupants and to avoid costly relocation expenses at this time. A \$300,000 one-time enhancement is included in the FY 08 Adopted Budget.

Summary by Character of Expense

Adopted* FY 08 Budget by Fund



| | Actual FY 06 | Adopted* FY 07 | Adjusted FY 07 | Year End** FY 07 | Adopted* FY 08 |
|--|--------------------|--------------------|--------------------|---------------------|--------------------|
| Expenditures: | | | | | |
| Salaries, Wages and Benefits | 18,421,348 | 20,422,769 | 20,056,270 | 20,541,606 | 22,048,120 |
| Materials, Supplies and Services | 387,901,881 | 326,208,448 | 348,266,317 | 310,102,048 | 263,061,371 |
| Internal Support | 4,259,479 | 4,629,365 | 4,827,348 | 4,613,099 | 5,224,952 |
| Capital Purchases | 39,389 | 2,309,700 | 650,707 | 310,970 | 2,309,700 |
| Debt Service | 2,646,967 | 1,264,585 | 1,264,585 | 1,577,158 | 1,879,238 |
| Transfers to Other Funds | 50,468,551 | 36,789,458 | 39,125,648 | 37,606,816 | 33,164,648 |
| Prior Year Encumbrance | - | - | - | - | - |
| Total Expenditures | 463,737,614 | 391,624,325 | 414,190,876 | 374,751,697 | 327,688,029 |
| Revenues: | | | | | |
| Property Taxes | - | - | - | - | - |
| Other Taxes | - | - | - | - | - |
| Licenses and Permits | - | - | - | - | - |
| Fines and Forfeitures | - | - | - | - | - |
| Use of Money & Property | 290,071,778 | 222,466,887 | 244,142,046 | 231,616,334 | 149,842,610 |
| Revenue from Other Agencies | 167,864 | - | 1,776 | 686,846 | - |
| Charges for Services | 152,983,045 | 167,887,603 | 167,887,603 | 146,728,162 | 165,508,059 |
| Other Revenues | 1,033,645 | 978,300 | 983,410 | 125,085 | 978,300 |
| Interfund Services - Charges | 255,008 | 275,000 | 275,000 | 265,165 | 285,000 |
| Intrafund Services - GP Charges | - | - | - | - | - |
| Harbor P/R Revenue Transfers | - | - | - | - | - |
| Other Financing Sources | 7,755,000 | 6,669,672 | 7,755,000 | 7,500,000 | 8,000,000 |
| Operating Transfers | - | - | - | - | - |
| Total Revenues | 452,266,340 | 398,277,462 | 421,044,835 | 386,921,591 | 324,613,969 |
| Personnel (Full-time Equivalents) | 239.25 | 239.25 | 239.25 | 239.25 | 240.25 |

* Amounts exclude all-years carover. See budget ordinance in the front section of this document.

** Unaudited

Personal Services

| Classification | FY 06 Adopt FTE | FY 07 Adopt FTE | FY 08 Adopt FTE | FY 07 Adopted Budget | FY 08 Adopted Budget |
|---------------------------------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|
| Director - Long Beach Gas and Oil | 1.00 | 1.00 | 1.00 | 174,791 | 187,235 |
| Accountant I | - | - | 1.00 | - | 54,475 |
| Accountant II | 1.00 | 1.00 | 1.00 | 58,976 | 49,588 |
| Accountant III | 2.00 | 2.00 | 2.00 | 133,778 | 137,431 |
| Accounting Clerk III | 2.00 | 2.00 | 2.00 | 83,098 | 77,414 |
| Accounting Technician | 2.00 | 2.00 | 2.00 | 83,475 | 85,746 |
| Administrative Aide II | 2.00 | 2.00 | 2.00 | 89,322 | 97,429 |
| Administrative Analyst II | 2.00 | 2.00 | 2.00 | 138,833 | 129,200 |
| Administrative Analyst III | 1.00 | 1.00 | 1.00 | 71,860 | 64,704 |
| Administrative Officer-Oil Properties | 1.00 | 1.00 | 1.00 | 90,926 | 97,399 |
| Assistant Administrative Analyst II | 1.00 | 1.00 | 1.00 | 57,053 | 49,090 |
| Clerk III | 1.00 | 1.00 | 1.00 | 26,213 | 28,496 |
| Clerk Supervisor | 1.00 | 1.00 | - | 37,631 | - |
| Clerk Typist II | 3.00 | 3.00 | 3.00 | 109,399 | 99,278 |
| Clerk Typist II - NC | 0.25 | 0.25 | 0.25 | 8,322 | 7,376 |
| Clerk Typist III | 3.00 | 3.00 | 3.00 | 116,488 | 117,386 |
| Construction Inspector I | 4.00 | 4.00 | 4.00 | 236,762 | 245,525 |
| Construction Inspector II | 4.00 | 4.00 | 4.00 | 271,992 | 293,945 |
| Corrosion Control Supervisor | 1.00 | 1.00 | 1.00 | 71,765 | 77,462 |
| Customer Service Representative III | 1.00 | 1.00 | 1.00 | 43,011 | 44,145 |
| Department Safety Officer | 1.00 | 1.00 | 1.00 | 78,782 | 81,033 |
| Divison Engineer-Oil Properties | 4.00 | 4.00 | 4.00 | 443,648 | 488,417 |
| Electrician | 1.00 | 1.00 | 1.00 | 53,381 | 54,838 |
| Engineering Aide III | 1.00 | 1.00 | 1.00 | 45,322 | 47,602 |
| Engineering Technician I | 2.00 | 2.00 | 2.00 | 96,645 | 92,899 |
| Engineering Technician II | 5.00 | 5.00 | 5.00 | 282,898 | 296,608 |
| Executive Secretary | 2.00 | 2.00 | 2.00 | 105,263 | 112,437 |
| Financial Services Officer | 1.00 | 1.00 | 1.00 | 80,033 | 85,524 |
| Gas Crew Utility Assistant I | 3.00 | 3.00 | 3.00 | 105,745 | 106,719 |
| Gas Crew Utility Assistant II | 29.00 | 29.00 | 29.00 | 1,188,374 | 1,405,198 |
| Gas Crew Utility Assistant III | 10.00 | 10.00 | 10.00 | 482,064 | 526,808 |
| Gas Distribution Supervisor I | 6.00 | 6.00 | 5.00 | 348,814 | 324,890 |
| Gas Distribution Supervisor II | 2.00 | 2.00 | 3.00 | 137,266 | 203,088 |
| Gas Field Service Representative II | 46.00 | 46.00 | 46.00 | 1,988,088 | 2,230,357 |
| Gas Field Service Representative III | 14.00 | 14.00 | 14.00 | 678,580 | 740,092 |
| Gas Instrument Technician | 4.00 | 4.00 | 4.00 | 203,775 | 225,551 |
| Gas Maintenance Supervisor I | 10.00 | 10.00 | 10.00 | 588,787 | 650,572 |
| Gas Maintenance Supervisor II | 1.00 | 1.00 | 1.00 | 68,633 | 74,623 |
| Gas Supply and Business Officer | 1.00 | 1.00 | 1.00 | 82,432 | 88,302 |
| General Maintenance Supervisor II | 1.00 | 1.00 | 1.00 | 54,740 | 56,235 |
| Geologist I | 1.00 | 1.00 | 2.00 | 106,856 | 206,933 |
| Geologist II | 1.00 | 1.00 | 1.00 | 100,061 | 102,357 |
| Maintenance Assistant I | 1.00 | 1.00 | 1.00 | 31,401 | 32,259 |
| Maintenance Assistant II | - | 1.00 | 1.00 | 34,628 | 33,876 |
| Manager-Business Operations | 1.00 | 1.00 | 1.00 | 93,816 | 102,757 |
| Subtotal Page 1 | ----- 181.25 | ----- 182.25 | ----- 183.25 | ----- 9,383,727 | ----- 10,313,301 |

Personal Services

| Classification | FY 06 Adopt FTE | FY 07 Adopt FTE | FY 08 Adopt FTE | FY 07 Adopted Budget | FY 08 Adopted Budget |
|--|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|
| Subtotal Page 1 | 181.25 | 182.25 | 183.25 | 9,383,727 | 10,313,301 |
| Manager-Electric Generation | 1.00 | 1.00 | 1.00 | 120,977 | 129,590 |
| Manager-Engineering & Construction | 1.00 | 1.00 | 1.00 | 121,950 | 130,632 |
| Manager-Fault Blocks/Upland | 1.00 | 1.00 | 1.00 | 120,050 | 137,309 |
| Manager-Gas Services | 1.00 | 1.00 | 1.00 | 88,675 | 97,862 |
| Manager-Oil Operations | 1.00 | 1.00 | 1.00 | 125,103 | 134,008 |
| Mechanical Engineer | 3.00 | 3.00 | 3.00 | 226,038 | 237,360 |
| Oil Field Gauger II | 2.00 | 2.00 | 2.00 | 125,673 | 131,994 |
| Payroll/Personnel Assistant II | 1.00 | 1.00 | 1.00 | 32,182 | 40,518 |
| Payroll/Personnel Assistant III | 1.00 | 1.00 | 1.00 | 43,623 | 44,814 |
| Petroleum Engineer Associate II | 4.00 | 3.00 | 2.00 | 277,182 | 176,464 |
| Petroleum Engineer I | 2.00 | 2.00 | 2.00 | 179,656 | 208,307 |
| Petroleum Engineer II | 5.00 | 5.00 | 6.00 | 540,433 | 739,499 |
| Petroleum Operations Coordinator I | 5.00 | 5.00 | 5.00 | 473,501 | 504,949 |
| Pipeline Welder | 7.00 | 7.00 | 7.00 | 364,688 | 424,508 |
| Principal Construction Inspector | 1.00 | 1.00 | 1.00 | 64,169 | 84,652 |
| Secretary | 4.00 | 4.00 | 4.00 | 170,339 | 176,034 |
| Senior Accountant | 1.00 | 2.00 | 2.00 | 137,761 | 147,287 |
| Senior Civil Engineer | 1.00 | 1.00 | 1.00 | 102,045 | 107,178 |
| Senior Engineering Technician I | 1.00 | 1.00 | 1.00 | 62,630 | 68,491 |
| Senior Equipment Operator | 5.00 | 5.00 | 5.00 | 250,637 | 287,601 |
| Senior Mechanical Engineer | 2.00 | 2.00 | 2.00 | 204,089 | 214,355 |
| Senior Petroleum Engineer Associate | 1.00 | 1.00 | 1.00 | 107,910 | 113,338 |
| SERRF Operations Officer | 1.00 | 1.00 | 1.00 | 85,656 | 93,137 |
| Stock & Receiving Clerk | 2.00 | 1.00 | 1.00 | 34,628 | 35,573 |
| Storekeeper I | 1.00 | 1.00 | 1.00 | 39,592 | 40,672 |
| Storekeeper II | 1.00 | 1.00 | 1.00 | 44,753 | 45,975 |
| Superintendent-Operations | 1.00 | 1.00 | 1.00 | 71,980 | 71,980 |
| Superintendent-Pipeline Construction & Maint | 1.00 | 1.00 | 1.00 | 81,503 | 88,700 |
| | | | | | |
| Subtotal Salaries | 239.25 | 239.25 | 240.25 | 13,681,147 | 15,026,088 |
| Overtime | --- | --- | --- | 380,800 | 380,800 |
| Fringe Benefits | --- | --- | --- | 7,426,547 | 7,677,575 |
| Administrative Overhead | --- | --- | --- | 434,276 | 463,657 |
| Salary Savings | --- | --- | --- | (1,500,000) | (1,500,000) |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 239.25 | 239.25 | 240.25 | 20,422,769 | 22,048,120 |

Key Contacts

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Scott Bailey, Manager, Oil Technical Bureau

Curtis P. Henderson, Manager, Oil Administration Bureau

Leslie Horikawa–Thiede, Manager, Gas Business Operations Bureau

Vacant, Manager, Gas Services Bureau

Charles R. Tripp, Manager, Electric Generation Bureau (SERRF)

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