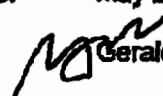




Date: May 28, 2006
 To:  Gerald R. Miller, City Manager
 From: Christopher J. Garner, Director of Long Beach Gas and Oil /c/
 For: Mayor and Members of the City Council
 Subject: Status Update on Negotiations With Sound Energy Solutions

As directed by the City Council action of May 24, 2005, Long Beach Gas and Oil (LBGO) has continued negotiations with Sound Energy Solutions (SES) in relation to the gas supply and interconnecting pipeline associated with SES' proposed liquefied natural gas (LNG) terminal in the Port of Long Beach.

As reported in my memorandum dated February 28, 2006, the original offer by SES was "severely lacking in fair value" for both the citizens of Long Beach and the General Fund. This assessment was shared with SES and it was determined that negotiations would continue forward.

In April, SES brought forward another proposal that was once again lacking in several areas. After further discussions, SES has brought forward a new offer with three slightly different alternatives. Improvements in the financial value have been achieved in all four primary target areas: term, gas supply, the interconnecting pipeline, and additional revenue to the General Fund.

This new offer demonstrates significant progress has been made in improving the value provided to the citizens of Long Beach and the City. However, this is not meant to imply that negotiations are complete or that staff is fully satisfied with the overall value of the current offer but rather to inform you that progress has occurred.

As such, LBGO will continue negotiations until such time staff is satisfied that SES has presented an offer that should be brought forward for City Council consideration, staff feels that negotiations have reached a point where further discussion would be fruitless, or LBGO is given different policy direction from you and the City Council.

LBGO
 SES Update to Council - May 2006

cc: Harbor Commissioners
 Robert E. Shannon, City Attorney
 Christine P. Shippey, Assistant City Manager
 Richard D. Steinke, Executive Director, Port of Long Beach