

DATE May 7, 2003

TO Development Committee

FROM Kathryn McDermott, Director of Properties

SUBJECT Sound Energy Solutions
Proposed Letter of Intent and Summary of Terms
Liquid Natural Gas Terminal, Pier T, T126

REQUESTED ACTION

This item requests the Development Committee's approval of a Letter of Intent and accompanying Summary of Terms with Sound Energy Solutions.

BACKGROUND

The Port of Long Beach and Sound Energy Solutions have been conducting preliminary discussions regarding the development of a proposed liquefied natural gas receiving terminal and regasification facility on approximately 27 acres of land on Pier T (formerly Pier Echo), Berth 126. Sound Energy Solutions is the business name of a wholly-owned subsidiary of Mitsubishi Corporation.

Liquefied natural gas (LNG) is formed by cooling natural gas to condense it into a clear, liquid. It is then transported by special ships and stored until it is distributed in its liquid form or regasified into natural gas. It is anticipated that this terminal may handle the equivalent of 68.3 million barrels of LNG per year, or 186,000 barrels per day. The LNG will be stored on Pier T in double-walled containment tanks.

DESCRIPTION OF CURRENT ISSUES

On February 3, 2003, the Board authorized the Executive Director to execute an exclusive negotiating letter with Sound Energy Solutions (SES) for a period of 60 days. This letter was subsequently extended through June 2, 2003. The negotiations during this exclusive negotiating period have resulted in a proposed Letter of Intent with SES, with an accompanying Summary of Terms that broadly sets forth the terms of a proposed Preferential Assignment Agreement.

The Letter of Intent provides that SES will have the exclusive right to pursue the development of an LNG receiving terminal at the location described in the attached exhibit. The process for obtaining permits for this project differs from other types of commodity terminals, as the Federal Energy Regulatory Commission (FERC) regulates LNG. We anticipate an extended permitting and approval process conducted by FERC, in addition to permitting and approvals required by PoLB and other governmental agencies.

The Letter of Intent includes the following terms and conditions:

- SES will have the exclusive right to pursue this project until the earlier of (i) the time SES determines the project is not feasible; (ii) FERC denies the project; or (iii) 37 months after the date of this letter. This is a binding provision of the Letter of Intent.
- In recognition of SES' exclusive right to develop the project and control the site, SES will pay PoLB monthly compensation in the amount of \$39,204, or 25% of the fair

rental value of the land, based on \$16 per square foot, effective January 1, 2004. This is another binding provision of the Letter of Intent.

- SES will enter into a separate right of entry agreement to allow them access to the site in connection with feasibility studies and geotechnical studies.
- Concurrent with any final agreement between PoLB and SES, SES will enter into an arrangement for the benefit of the citizens of Long Beach, the Long Beach Energy Department, and PoLB to provide liquid natural gas/natural gas.

Subject to environmental review, the Summary of Terms sets forth the general business terms to be included in a final agreement between the PoLB and SES. The Summary of Terms includes the following:

- PoLB will assign to SES Berth T126 and associated backlands consisting of approximately 27 acres. PoLB will be responsible for demolishing existing above ground structures including paving, and for dredging the berth to a depth of -50 feet MLLW. PoLB will design and construct the wharf, which will meet FERC standards.
- The Preferential Assignment Agreement will have a term of 40 years.
- SES will perform all site preparation work and will construct the project. The project is expected to include two 160,000-cubic-meter cryogenic tanks, regasification facilities, delivery facilities for fuel distributors, LNG unloading arms, and related equipment.
- PoLB will grant a license for pipelines over its land as required for SES to construct a pipeline to connect to natural gas distribution pipelines.
- The parties acknowledge that hazardous substances may be encountered during the construction process, due to its former use by the Navy. SES will conduct the necessary remediation of preexisting hazardous substances discovered during construction up to \$10,000 per incident and a maximum of 25 incidents. PoLB will reimburse SES for remedial costs above the per incident threshold or above the aggregate threshold. SES will conduct such remediation pursuant to plans approved by PoLB prior to remediation and such remediation shall be the minimum necessary to accomplish the project.
- During the permitting process, SES will pay PoLB 25% of the fair market rent for the land, based on a land value of \$16 per square foot, beginning January 1, 2004. This rent is estimated to be \$470,475 per annum. Upon the start of construction, SES shall pay PoLB 50% of the fair market rent for the land, estimated to be \$940,950 per annum.
- When the project is substantially complete, and for the first five year segment of the term, the wharfage rate for LNG will be based on the wharfage rate for crude oil (currently \$0.077/bbl). In addition, SES will pay PoLB 100% of all dockage charges and other applicable Tariff charges. SES will pay PoLB 100% of the wharfage charges to the Guaranteed Minimum Annual Compensation (GMAC), and then 50% of the wharfage charges thereafter.
- The GMAC for the first five year segment of the term will be composed of (i) a 10% annual return on a land value of \$16 per square foot, estimated to be \$1,881,900; and (ii) additional rent in the amount of 12% of PoLB's cost to construct the wharf improvements. The GMAC will be subject to renegotiation to fair market rent every five years thereafter.

FINANCIAL IMPLICATIONS

At this time, based on estimates only, we expect the GMAC to be \$3,700,000. In addition, the City of Long Beach, Port of Long Beach, and citizens of Long Beach will benefit from a reliable, long-term supply of liquefied natural gas/natural gas.

RECOMMENDATION

We request that the Development Committee recommend to the Board of Harbor Commissioners approval of a Letter of Intent and accompanying Summary of Terms with Sound Energy Solutions, based on the terms outlined above.



Kathryn McDermott
Director of Properties

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P-SOUN #3049

Recommended By:



Geraldine Knatz, Ph.D.
Managing Director

for

Approved By:



Richard D. Steinke
Executive Director

PIER T COMPLEX

LNG FACILITY (APPROXIMATE ACREAGE)

27 ACRES

HANJIN
CONTAINER TERMINAL

(WHARF UNDER CONSTRUCTION)

PIPE LINE
RIGHT OF WAY

LNG AREA



PIER T COMPLEX
CONCEPTUAL LAYOUT

THE PORT OF LONG BEACH

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