



**OFFICE OF THE CITY AUDITOR**  
Long Beach, California

**LAURA L. DOUD, CPA**  
City Auditor

March 19, 2012

Christopher J. Garner  
Director, Gas & Oil Department  
2400 E. Spring Street  
Long Beach, CA 90806

Re: Gas Rates Review

Dear Chris:

The Office of the City Auditor (OCA) recently completed a review of Long Beach Gas & Oil (LBGO) gas commodity rate calculations for fiscal year (FY) 2011. Based on your request, the objective of the review was to understand the costs, timing, and other components of the calculations and validate for reasonableness as compared with Southern California Gas (So Cal Gas) rates.

As part of our review, we interviewed LBGO and So Cal Gas personnel to gain an understanding of respective gas commodity rates, agreed a sample of LBGO's monthly rate calculations to source documents, reviewed expenditures recorded in the City's accounting system, and identified differences, if any, between LBGO and So Cal Gas commodity rate components.

We concluded that, overall, LBGO rates are reasonable as compared with So Cal Gas rates. However, to further align with So Cal Gas, LBGO may include an additional component and consider establishing a dollar threshold for the over/under collection balance as discussed below.

- So Cal Gas' monthly gas rate incorporates their "carrying cost of storage inventory," which includes warehouse costs such as rent, utilities and salaries. LBGO currently has an annual contract with So Cal Gas for storage reservation charges or warehouse rent, totaling \$558,972 for the period April 1, 2011 – March 31, 2012. These charges are not included in LBGO's gas commodity rates.
- Gas commodity rates are established prior to actual usage, which may lead to collections over or under actual purchasing costs. So Cal Gas establishes an over/under collections threshold and adjusts rates accordingly. LBGO does not have an established threshold; however, an adjustment will be included in the next month's rates after consideration of the following: 1) current over/under collection

balance; 2) current volume in storage; 3) season (e.g., winter, spring, summer, fall); and 4) timing of purchases and collections. Although the current over/under collection balance is considered, there is no established minimum and maximum dollar threshold to prompt when an adjustment should be made.

To align LBGO's gas rates with So Cal Gas', we recommend LBGO begin including storage reservation charges, and consider establishing a dollar threshold similar to So Cal Gas to ensure that rates are adjusted appropriately.

We would like to express our appreciation to LBGO management and staff for their time, information and cooperation provided to us during our review. We would be happy to respond to questions at your convenience.

Sincerely,



Laura L. Doud  
CITY AUDITOR