



**THE PORT  
OF LOS ANGELES**  
Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: JULY 6, 2016**

**FROM: CARGO & INDUSTRIAL REAL ESTATE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - APPROVE ORDER ASSIGNING PERMIT NO. 309 FROM CONOCOPHILLIPS COMPANY TO PHILLIPS 66 COMPANY AND ORDER RESETTING COMPENSATION**

**SUMMARY:**

Staff requests approval of the assignment of Permit No. 309 from ConocoPhillips Company, a Delaware corporation (ConocoPhillips), to Phillips 66 Company, a Delaware corporation (Phillips 66) due to the company demerger from ConocoPhillips. In addition, staff requests approval of the compensation reset under Permit No. 309 for the five-year period of June 13, 2016 through June 12, 2021.

Under the terms of Permit No. 309, ConocoPhillips is granted the authority to use City of Los Angeles Harbor Department (Harbor Department) property at the Classification Yard located in the north Wilmington area for maintenance and operation of subsurface petroleum pipelines.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order assigning Permit No. 309 from ConocoPhillips Company to Phillips 66 Company;
3. Approve the Order resetting compensation under Permit No. 309 for five-year period of June 13, 2016 through June 12, 2021;
4. Authorize the Board Secretary to attest to the Orders upon approval by the Board of Harbor Commissioners;
5. Adopt Order Nos. \_\_\_\_\_; and
6. Adopt Resolution No. \_\_\_\_\_.

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SUBJECT: ORDERS APPROVING ASSIGNMENT OF PERMIT NO. 309 FROM CONOCOPHILLIPS TO PHILLIPS 66 AND COMPENSATION RESET

**DISCUSSION:**

Background and Context - Permit No. 309 was originally granted to Shell Oil Company on June 13, 1976 for the use of a right-of-way for the operation and maintenance of pipelines, including the necessary pipes, gate valves, and appurtenances for the purpose of transporting petroleum products and compounds. The premises are approximately 48,693 square feet of subsurface petroleum pipelines. Permit No. 309 has a 50-year term, expiring June 12, 2026.

Pursuant to Section 19 of Permit No. 309, "Permittee shall not assign, sublease, transfer, give, hypothecate, grant control of, or otherwise encumber the premises or this Permit without first obtaining the approval of Board by Order, which approval shall not be unreasonably withheld." The Board consented to the assignment of Permit No. 309 to Union Oil Company in 1994 (O. 6235); to Tosco Corporation in 1997 (O. 6534); and to ConocoPhillips Company in 2001 (O. 6872). ConocoPhillips transferred ownership to Phillips 66 through an Assignment and Assumption and Bill of Sale Agreement for the pipelines as depicted on the attached map (Transmittal 1).

In addition, Section 3-B of Permit No. 309 provides for resetting compensation every five years and it is now time for the period of June 13, 2016 through June 12, 2021. The compensation reset rate of \$29.00 per square foot is based on the rental rate applied to the Phillips 66 pipelines at the marine oil terminal.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action assigns Permit No. 309 from ConocoPhillips to Phillips 66, and resetting compensation under Permit No. 309 for the five-year period of June 13, 2016 through June 12, 2021. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA under Article II, Section 2(f) of the City of Los Angeles CEQA Guidelines.

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SUBJECT: ORDERS APPROVING ASSIGNMENT OF PERMIT NO. 309 FROM CONOCOPHILLIPS TO PHILLIPS 66 AND COMPENSATION RESET

**FINANCIAL IMPACT:**

Phillips 66 is currently paying \$27,390.00 annually, based on a land value of \$22.50 per square foot, with a 10 percent return, and a 75 percent discount for subsurface pipelines.

Summary of current compensation:

<u>Description</u>	<u>Total S.F.</u>	<u>Land Value</u>	<u>10% Return</u>	<u>Discount</u>	<u>Yearly Amount</u>
Parcel 1	7,057	\$ 22.50	10%	75%	\$ 3,969.56
Parcel 2	41,496	\$ 22.50	10%	75%	\$ 23,341.50
Parcel 3	140	\$ 22.50	10%	75%	\$ 78.75
<b>Current Compensation</b>					<b>\$ 27,390.00</b>

The Harbor Department and Phillips 66 have agreed to the proposed compensation based on a land value of \$29.00 per square foot, which is based on the rental rate applied to the Phillips 66 pipelines at the marine oil terminals. The proposed compensation reset conforms to the Harbor Department's 10 percent rate of return policy on land. Further, the parties have agreed to a reduction in the subsurface discount from 75 percent to 50 percent to comply with the current Port Leasing Policy.

Approval of the proposed compensation reset will result in Phillips 66 paying the Harbor Department annual rent of \$70,604.85, an increase of \$43,215.00 annually.

Summary of proposed compensation:

<u>Description</u>	<u>Total S.F.</u>	<u>Land Value</u>	<u>10% Return</u>	<u>Discount</u>	<u>Yearly Amount</u>
Parcel 1	7,057	\$ 29.00	10%	50%	\$ 10,232.65
Parcel 2	41,496	\$ 29.00	10%	50%	\$ 60,169.20
Parcel 3	140	\$ 29.00	10%	50%	\$ 203.00
<b>Proposed Compensation</b>					<b>\$ 70,604.85</b>

**CITY ATTORNEY:**

The Order consenting to the Assignment of Permit No. 309 (Transmittal 2) and the Order resetting compensation under Permit No. 309 (Transmittal 3) have been approved as to form and legality by the Office of the City Attorney.

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SUBJECT: ORDERS APPROVING ASSIGNMENT OF PERMIT NO. 309 FROM CONOCOPHILLIPS TO PHILLIPS 66 AND COMPENSATION RESET

**TRANSMITTALS:**


1. Site Map
2. Assignment Order
3. Compensation Reset Order

FIS Approval: MB (initials)

CA Approval: SM (initials)



JACK C. HEDGE  
Director of Cargo & Industrial Real Estate



FOR MICHAEL DiBERNARDO  
Deputy Executive Director

APPROVED:



FOR EUGENE D. SEROKA  
Executive Director

EDS:JH:RG:EPP:raw  
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BL597raw Phillips 66 Assignment & Comp Reset