



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JUNE 6, 2012

FROM: REAL ESTATE

SUBJECT: ORDER NO. _____ - APPROVE RESETTING OF
COMPENSATION UNDER ORDER NO. 4506 WITH SOUTHERN
CALIFORNIA GAS COMPANY

SUMMARY:

Under Order No. 4506, the City of Los Angeles Harbor Department (Harbor Department) granted Southern California Gas Company (SCG) a franchise to construct, operate, and maintain a system of subsurface pipelines for the transportation and distribution of natural gas to consumers within the Harbor Department's jurisdiction. The franchise has a 50-year term, effective January 20, 1972 through January 19, 2022. The franchise provides for the renegotiation of compensation for each ten-year period following the first ten years. The proposed Order resetting compensation is for the fifth and final ten-year period of this franchise, which will commence retroactively on January 20, 2012.

RECOMMENDATION:

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

1. Adopt and approve the Order resetting compensation under franchise with Southern California Gas Company for the ten-year period of January 20, 2012 through January 19, 2022;
2. Authorize the Board Secretary to attest to the Order resetting compensation pursuant to the franchise with Southern California Gas Company; and
3. Adopt Order No. _____.

DISCUSSION:

Background – In July 1975, the Board adopted Order No. 4506 authorizing execution of a 50-year franchise granting SCG the right to use all tidelands, submerged lands, and other lands under management and control of the Board for the purpose of constructing, maintaining, and operating a system of pipelines and appurtenant structures for the transmission and distribution of gas to consumers within the Harbor District (Transmittal 2).

Current Compensation – Under Order No. 4506, the minimum rent is to be reset every ten years. The compensation under this franchise is based upon the greater of the following two choices: a) two percent of annual gross receipts from SCG's total operations within the Harbor Department's jurisdiction, or b) one percent of gross receipts from the sale of gas within the limits of the Harbor District under this franchise (Transmittal 1).

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The calculations for the two percent of the annual gross receipts is derived from a formula based on the total investment of SCG in its physical properties, total annual gross receipts from operation of such properties, and total length in miles of the pipeline distribution system (i.e., total operations). The calculation for one percent of the gross receipts is derived from the sale of gas to consumers within the Harbor District, and SCG is required to make payments on the larger of the two amounts.

As such, the rent paid under the franchise fluctuates based upon the gross receipts collected. In accordance with the provisions of the franchise, SCG is required to file a verified statement setting forth the total gross receipts for the preceding year within three months of the end of the annual cycle. During the fourth ten-year compensation period, SCG paid annual rent ranging from a low of \$17,014 to a high of \$56,514. Based on these provisions, the compensation for calendar year 2011 was \$23,276.

Proposed Compensation – The proposed compensation for the franchise authorized by Order No. 4506 will be two percent of gross receipts from total operations or one percent of gross receipts from sale of natural gas within the Harbor District, whichever is the greater amount, for the fifth ten-year period commencing January 20, 2012 (the same rate as the previous periods). This is to maintain uniformity with other City of Los Angeles franchises with SCG and is consistent with pipeline rent structure under California Public Utilities Code 6231. The annual amount of compensation will continue to fluctuate in alignment with the trends in the natural gas utility business.

The proposed compensation will continue to be governed under the California Public Utilities Code. The annual rents generated for calendar years 2010 and 2011 were \$18,786 and \$23,276 respectively, which reflects a 24 percent increase in annual rent from calendar years 2010 to 2011.

Insurance Requirements – Since the Harbor Department's adoption of an Environmental Management Policy in 2005, the Harbor Department has looked at measures to mitigate environmental losses. One measure that has since been implemented is the transfer of risk to the tenant. Tenants with environmental exposures, such as pipelines, are now required to insure for environmental impairment liability. Accordingly, Risk Management has reviewed the existing insurance requirements under the franchise and determined that an increase in the insurance limits is warranted. Pursuant to Section 6, Public Liability Insurance, the Board may increase or decrease the insurance limits under the franchise at the beginning of each ten-year period.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an order to reset compensation under a franchise with SCG. As an administrative activity, the Director of Environmental Management has determined the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

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ECONOMIC BENEFITS:

This Board action will have no direct employment effect.

FINANCIAL IMPACT:

There is no change in methodology in calculating the tenant's proposed compensation; the annual amount of compensation will continue to fluctuate in alignment with the trends in the natural gas utility business.

CITY ATTORNEY:

The proposed Order has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Order
2. Site Map

FIS Approval: WR (initials)
CA Approval: tm (initials)


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APPROVED:


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