THE PORT
OF LOS ANGELES

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 31, 2012

FROM: PLANNING & ECONOMIC DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ - MARINE OIL TERMINAL ENGINEERING AND MAINTENANCE STANDARDS IMPLEMENTATION STRATEGY

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) has seven tenants operating marine oil terminals under separate permits. The Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS) established new building code requirements for all existing and new marine oil terminals in California. MOTEMS requires all liquid bulk wharves in the Port of Los Angeles (Port) to be significantly upgraded or replaced. Through ongoing discussions with the California State Lands Commission, which oversees the MOTEMS program, the Harbor Department has agreed to complete implementation by 2018.

Harbor Department staff has developed a MOTEMS Implementation Strategy (MIS) that minimizes capital outlays associated with the wharf upgrades, addresses land use inconsistencies, and provides an opportunity for increased utilization of Harbor Department land and wharf assets. Under the MIS, certain marine oil terminals would remain in their current locations, while others would either be relocated, consolidated or closed. One marine oil terminal operator, Vopak is proposed to be relocated from their existing facility at Berths 187-190 to Berths 148-151, the current site of Phillips 66. The proposed relocation of Vopak would address land use inconsistencies between their current premises and the adjacent Wilmington Waterfront Development project area. Vopak has proposed an alternative plan (Vopak Plan) that would allow them to remain on a portion of their current premises and reconfigure their operation to move berthing and tank storage activities from Berths 187-190 to Berths 191-194.

Harbor Department staff is requesting input and direction from the Board of Harbor Commissioners (Board) on the proposed MIS. Upon receipt of the Board's input and direction, staff will finalize the MIS and present to the Board for action at a later date.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners provide staff with input and direction on the proposed Marine Oil Terminal Engineering and Maintenance Standards Implementation Strategy, subject to compliance with all applicable laws including, without limitation, the California Environmental Quality Act (CEQA), the National

Environmental Policy Act (NEPA), and the California Coastal Act (Coastal Act), as well as the execution of mutually acceptable agreements that will require the review and approval of City of Los Angeles (City) entities including, without limitation, the Board of Harbor Commissioners and the Los Angeles City Council, which approvals have neither been sought nor obtained. Notwithstanding any such staff direction (or responsive action by staff or others) the Board and City shall at all times retain full discretion to approve, disapprove, adopt or modify any and all agreements and environmental documents (including any projects, mitigation measures, project changes, and/or alternatives) related to this matter; and under no circumstances shall any such Board input and direction to staff be construed as a commitment, approval or determination of any kind by the Board, the City or other entity, whether under CEQA, NEPA, the Coastal Act or otherwise.

DISCUSSION:

MOTEMS Implementation Strategy – The MIS was developed to respond to the MOTEMS mandate from the California State Lands Commission to upgrade marine oil terminals and the associated wharf structures. Goals of the MIS include (1) minimizing the Harbor Department's capital investments in wharf structures while addressing the future projected petroleum product throughput volumes, (2) increasing the utilization of waterfront land and wharf assets, and (3) resolving land use inconsistencies with existing and future land uses (Transmittal 1).

Port Capital Investment in Wharf Structures – Total projected petroleum product throughput is estimated to be 103.6 million barrels annually by 2025, based on the 2009 California Energy Commission (CEC) Transportation Fuel Report's projection of California imports of transportation fuels. Currently, the Port has an estimated terminal capacity to accommodate 124.3 million barrels annually, utilizing 11 berths. Currently several terminals in the Port operate well below capacity and/or do not utilize all of their berths. The MIS seeks to maximize the benefit of future investment in MOTEMS by investing in only the number of berths required to meet projected capacity requirements. Table 1 below shows each tenant's average utilization and year to year volumes for the past ten years. The proposed berth reduction includes the closure of the Kinder Morgan facility at Berths 118-120 (one berth) and the consolidation of the Phillips 66 and ExxonMobil terminals (two berths). The reduction in the number of berths would decrease total throughput capacity to an estimated 100 million barrels per year, which is below the forecasted throughput volume of 103.6 million barrels annually. However, a current marine oil terminal operator is permitted to expand their throughput by up to 30 million barrels annually and exercising this option would provide excess capacity to meet forecasted demand.

Table 1 – Ten Year Utilization

Liquid Bulk Volumes and Average Utilization, By Marine Oil Terminal
(In Barrels)

	B. 118- 119	B. 148- 150	B. 163	B. 164	B. 167 - 169	B. 187 - 189	B. 238 - 240
	Kinder Morgan	Phillips 66	NuStar	Ultramar/Valero	Shell	Vopak	ExxonMobil
Lease Expiration	2013	month to month	2014	month to month	2023	2023	2015
2002	13,801,282	5,695,237	7,077,356	1,272,375	15,294,853	21,054,129	4,502,613
2003	19,609,435	5,925,545	5,822,943	4,063,165	16,973,071	19,066,632	3,736,816
2004	20,334,106	4,983,642	6,025,633	5,646,020	20,723,691	28,387,727	4,508,741
2005	17,487,050	5,597,161	5,534,964	11,406,828	22,282,020	33,475,839	4,375,213
2006	22,247,860	5,237,397	6,464,156	11,211,200	25,431,726	31,008,573	8,450,744
2007	17,526,247	6,791,592	7,137,282	9,376,655	29,041,722	31,766,958	7,506,404
2008	9,534,488	5,469,954	5,702,207	9,038,004	17,619,680	23,107,545	3,732,553
2009	7,160,631	3,214,785	5,577,056	10,475,063	19,141,907	27,149,029	6,341,130
2010	6,635,318	2,590,224	1,902,396	9,873,939	14,673,524	31,445,036	4,493,671
2011	6,052,789	3,881,733	4,011,753	13,037,922	12,244,796	27,341,432	5,325,367
Utilization (10-year average)	**61.0%**	**49.4%**	**75.7%**	**74.3%**	**64.5%**	**81.7%**	**58.9%**

Improving Land and Asset Utilization – The Port has a finite amount of land dedicated to cargo handling uses and the Harbor Department generally requires, through the tariff, that land not be utilized for storage of non-waterborne cargo or long-term storage of waterborne cargo.

Some liquid bulk operators, such as Vopak, achieve a high utilization of their land and wharves and during peak volume years have achieved per acre revenue comparable to container terminals. This indicates their facilities are being used for rapid and efficient throughput of petroleum products. However, other liquid bulk tenants, such as ExxonMobil and Phillips 66 operate at a much lower efficiency and revenue per acre. This lower utilization is due to the fact that they use their marine oil terminals to support refinery operations when additional storage capacity is needed, such as during refinery maintenance. Additionally, some tanks, such as in ExxonMobil's inland Terminal Island tank farm, are used for medium term storage for non-waterborne crude oil. As a result, the MIS proposes to consolidate Phillips 66 and ExxonMobil into one marine oil terminal. This would reduce the number of berths currently available to the two operators from four to two. Reducing the number of berths and the related tank storage will result in greater utilization of the berths and tank farm.

Resolving Land Use Inconsistencies – As discussed above, the proposed MIS includes the termination, consolidation, and relocation of certain marine oil terminals. Kinder Morgan's facility at Berths 118-119 is proposed to cease operation at the expiration of their lease in 2013, and ExxonMobil's Area inland Terminal Island tank

farm is also planned to be vacated by 2015 (Transmittal 1). The future use of the Kinder Morgan facility is proposed to accommodate container terminal expansion from the adjacent West Basin Container Terminal. The ExxonMobil inland Terminal Island site is also proposed to accommodate container terminal expansion. Vopak, the Port's largest liquid bulk customer, is the primary tenant affected by inconsistent adjacent land uses. The proposed MIS recommends that Vopak be relocated to Berths 148-151, the current site of Phillips 66 in the Wilmington District of the Port.

Vopak is located adjacent to both the Banning's Landing Community Center (Banning's Landing) and the proposed Wilmington Waterfront Development project at the head of Slip 5. The operations of the Vopak marine oil terminal create land use inconsistencies with the existing and proposed recreational public access uses. While the planning and implementation of the Banning's Landing was progressing, the zoning for the Port was comprehensively revised in January 1990, when the City of Los Angeles City Council approved the City's General Plan/Zoning Consistency Ordinance. Among the various impacts to the Port, one was the division of the Wilmington Planning District into two planning areas (5A and 5B). The intent of this action was to address land use consistencies between marine oil terminals and public access areas by eliminating liquid bulk uses as a permitted use by right in the northern portion of Planning Area 5, which includes the current Vopak site and Banning's Landing. The ordinance "grandfathered" Vopak's operations and allows them to expand provided there is no hazard footprint overlap of high density public areas, but prescribes approval by the City of Los Angeles Planning Commission.

Generally liquid bulk storage uses and recreational and tourist-serving open space are not compatible uses due to aesthetics, odors and the potential for overlapping hazardous footprints. To maximize the utilization and enjoyment of the existing and planned public access areas at the head of Slip 5 and along the Avalon Boulevard corridor, the proposed MIS proposes the relocation of Vopak to a location that is not restricted by adjacent uses.

Additionally, the proposed MIS would allow Vopak the flexibility to handle and store various petroleum products. Currently, due to the adjacent Banning's Landing, Vopak is required to restrict the handling and storage of hazardous petroleum products at their marine terminal. Due to the implementation of Assembly Bill (AB) 32, which addresses the control of greenhouse gases, the California Energy Commission is forecasting greater receipts of waterborne ethanol volumes and the potential of greater exports of gasoline grades that cannot be utilized in the state as a result of AB 32. As both of these commodities have low flashpoints and are therefore hazardous, it is anticipated that Vopak would be limited in handling and storing these commodities at their existing marine facility due to potential hazardous footprint overlap with the adjacent public access recreational uses. This restriction could be a significant competitive limitation for Vopak. Relocation of Vopak to Berth 148-151 would remove the land use conflicts and allow Vopak unrestricted opportunity to handle these commodities.

Development of Alternative Relocation Plans – Staff began preparing the MIS in 2010. In August of 2010, there were meetings with the marine oil terminal operators to inform them of the proposed strategy, which included the proposed relocation of Vopak. Vopak responded by proposing an alternative plan (Vopak Plan), which relocated their berthing operations to a more remote location (Berths 191-194) and removed certain tankage in close proximity to the public access areas (Transmittal 2). The site of the vacated tanks was proposed to be developed as a landscaped buffer. However, the majority of the tank farm site was to remain and, in staff's opinion, still resulted in land use conflicts. In April 2011, at the request of Harbor Department staff, Vopak began public outreach efforts on their plan. Vopak's plan received support from various community organizations, elected officials, and labor unions, which are listed in Transmittal 3. The Harbor Department actively participated in several community meetings related to the Vopak Plan and presented the proposed MIS as an alternative to the Vopak Plan. In June 2011, the Harbor Department requested that Vopak participate in feasibility and cost study comparing the two plans.

The study determined both plans to be operationally feasible and identified significant cost differences between the two plans as shown in Table 2 below. The significant cost difference results from the proposed MIS requiring Vopak to completely redevelop their operations on a new site in addition to a required site remediation at the existing Vopak and Phillips 66 site, as well as pipeline connections to and from the new locations. The proposed MIS requires the relocation of Phillips 66 from their current location to accommodate Vopak's relocation. Phillips 66 would consolidate their operations with ExxonMobil at Berths 238-240 on the Main Channel. The Vopak Plan is significantly less expensive as only a portion of the Vopak site is required to be redeveloped and remediated. Each plan is analyzed below.

Table 2- Vopak Relocation Costs (in millions $)

Vopak Plan - Berths 191-194 Responsible Party Costs			**Port Plan – Berths 148-151 Responsible Party Costs**		
Harbor Department	**Vopak**	**Exxon/Conoco/ Other**	**Harbor Department**	**Vopak**	**Exxon/ Conoco**
$36.4 - $45.1	$54.5	$11.15	$31.9	$239.2	$79.5
Total Project Cost	$102 - $111		Total Project Cost	$351	
Projected Harbor Department Revenue	$14.8		Projected Harbor Department Revenue	$13.4	
Harbor Department Rate of Return on MOTEMS investment	17.1%		Harbor Department Rate of Return on MOTEMS investment	20.7%	

Tenant Impact Assessment – Under Vopak's suggested plan, their relocated berthing would displace several tenants, including University of Southern California's (USC) rowing facility, APC (a marine contractor), Boatswayne (a wood boat restorer) and Construction & Maintenance's (C&M) work yard. There are available relocation sites to address the needs of these tenants. These tenants would be required to pay the cost of their relocations as they are currently on short-term leases and that status is not assumed to change in the proposed project window.

Under the proposed MIS, Vopak's relocation to the Phillips 66 site would require additional infrastructure improvements on behalf of Vopak, including new tankage and pipelines to connect to their existing pipelines. Phillips 66 would be required to construct pipelines to connect their refinery to the ExxonMobil facility. A significant portion of Phillips 66 tankage at their current site is underutilized. Relocation of their operations to ExxonMobil's' similarly underutilized facility at Berths 238-240 is operationally feasible, but may require development of additional tanks. Under the Harbor Department Plan, a third-party terminal operator would most likely be required for the ExxonMobil facility to confidentially coordinate operations between the two oil refiners. This would be required to address potential antitrust collusion concerns related to two oil refiners sharing refinery operation information.

The vacated Vopak site at Berths 187-190 could be used to accommodate land uses that would be compatible with the adjacent Wilmington Waterfront Development project. These uses could include waterfront commercial, recreational, open space, or non-hazardous cargo handling.

Financial Impact Assessment – An estimated summary of project costs and revenues for each alternative is presented above in Table 2 and expanded detail is provided in Transmittal 4.

The Vopak Plan has an estimated development cost of $102 to $111 million. The Harbor Department would be responsible for $36.4 to $45.1 million that addresses the MOTEMS wharf improvements at Vopak, Phillips 66, and ExxonMobil; dredging for the new Vopak berths; relocation of C&M's work yard; and site remediation for one of the potential USC rowing facility relocation sites. Vopak would be responsible for approximately $54.5 million for site remediation for the vacated portion of the site, tank and pipeline relocation, and MOTEMS compliance costs that exceed the Harbor Department's proposed capped contribution of $7.5 million per berth. ExxonMobil and Phillips 66 would be responsible for $7.4 million for MOTEMS compliance, and tenants currently located at Berths 191-194 would be responsible for $3.75 million to relocate to another location in the Port. The estimated annual revenue to the Harbor Department of $14.8 million includes $6 million from Vopak, $8.7 million from ExxonMobil and Phillips 66, and $0.1 million in rent from the relocated tenants. The estimated rate of return to the Harbor Department on MOTEMS investment for this project is 17.1%

The proposed MIS has an estimated development cost of $351 million, The Harbor Department would be responsible for $31.9 million which is less than the $36.4 to $45.1 million required under the Vopak Plan due to less dredging and potential site remediation. Vopak's cost would be $239.2 million due to the need to develop new tankage and pipelines, and ExxonMobil and Phillips 66 would be responsible for $79.5 million for pipelines required to connect Phillips 66 refinery to the ExxonMobil terminal, site remediation costs, and MOTEMS compliance costs. The estimated revenue to the Harbor Department of $13.4 million is less than the Vopak Plan due to a loss in revenue (land rent) from consolidated operations of ExxonMobil and Phillips 66 at Berths 238-240. The estimated rate of return to the Harbor Department on MOTEMS investment for this project is 20.7%.

Revenue projections under the Harbor Department Plan assume Vopak relocates and remains in business at their existing operational level. Vopak has stated the Harbor Department Plan is financially infeasible and they would opt to go out of business after their lease expires in 2023. If this occurred, revenue projections could be decreased by as much as $3 million if Vopak's volumes are not maintained in the Port. Additionally, the revenue projections above assume recreational uses occupy only the portion of the current Vopak site adjacent to Banning's Landing and that the majority of Vopak's site is maintained for cargo handling. Modification or elimination of any of these assumptions could result in further reduced projected revenues.

Conclusion – In order to address land use inconsistencies between Vopak's current facility footprint and the adjacent Wilmington Waterfront Development project, relocation or reconfiguration of Vopak's operation will be required. In addition, the land use utilizations of other marine terminal operators need to be addressed regardless of which plan is preferred.

The proposed MIS addresses Vopak's land use inconsistencies with adjacent uses and would allow Vopak to have unrestricted operations at their new site allowing for access to new business opportunities that may make up a large portion of the future Port liquid bulk cargo handling business. The proposed MIS also achieves higher utilization of liquid bulk assets by consolidating tenants that have historically underutilized their facilities.

However, the proposed MIS is more speculative than the Vopak Plan as it requires a series of relocations that are currently not supported by existing tenants. Proposed relocations will also require site remediation for certain facilities, which could significantly delay implementation. Additionally, future liquid bulk revenues and the ability to handle future projected liquid bulk volumes may be impacted should Vopak not agree to relocate. Should Vopak cease operations, the Harbor Department would pursue a competitive process seeking a third party operator for the Berths 148-151 site.

Maintaining Vopak in their current location retains existing land use conflicts with the adjacent recreational public access areas. Vopak will also have to continue to operate under restrictions limiting the types of petroleum products handled and stored at the facility in order to be consistent with the Harbor Department's Risk Management Plan.

However, the reduced cost of the Vopak Plan makes it less speculative as Vopak is willing to make the investment in their proposed plan. Additionally, the Vopak Plan is less likely to result in lost volumes and revenues currently provided by Vopak's operation. Vopak has also received support for their plan from community organizations, elected officials and labor unions.

Finally, maintaining Vopak's operation at their current site would no longer require the consolidation of Phillips 66 and ExxonMobil and provides the Harbor Department alternative options to increase capacity at their facilities. These options include economically encouraging these tenants to increase utilization through higher rent, which will automatically occur with proposed MOTEMS improvements, or requiring operational changes including partnering with third party operators to insure utilization is maximized to the extent the market will allow.

Harbor Department staff is requesting input and direction from the Board of Harbor Commissioners (Board) regarding the proposed MIS and the alternative Vopak Plan. Upon receipt of the Board's input and direction, staff will finalize the MIS and present to the Board for action at a later date.

ENVIRONMENTAL ASSESSMENT:

The proposed action is limited to the Board providing staff direction on finalizing the MIS. Board action on this item is not legally binding nor does it commit the Harbor Department to the approval of any permit or lease or any terms or conditions thereof, or any proposed project. Any proposed project concerning MOTEMS implementation, including the relocation of any marine oil terminal would require an Application for Discretionary Project, which would be subject to environmental review under CEQA and the National Environmental Policy Act (NEPA), as appropriate, to analyze potential environmental impacts, feasible mitigation measures to reduce or avoid such impacts, and reasonable alternatives to the proposed project.

SUBJECT: MOTEMS IMPLEMENTATION STRATEGY

CITY ATTORNEY:

The Office of the City Attorney has reviewed this Board letter and determined it raises no legal issues at this time.

TRANSMITTALS:

1. MOTEMS Implementation Strategy
2. Vopak Plan
3. List of Letters of Support for Vopak Project
4. Financial Impact Assessment

FIS Approval: BMR **(initials)**
CA Approval: TAM **(initials)**

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