



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: FEBRUARY 22, 2019

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVE PERMANENT ORDER TO AMEND PORT OF LOS ANGELES TARIFF NO. 4, SECTION TWENTY-THREE, ITEM NO. 2326, "DEFINITIONS OCEAN COMMON CARRIER – ULTRA-LARGE CONTAINER VESSEL INCENTIVE PROGRAM;" AND ITEM NO. 2327 "OCEAN COMMON CARRIER – ULTRA-LARGE CONTAINER VESSEL INCENTIVE PROGRAM AND ELIGIBILITY REQUIREMENTS," PROVIDING A FINANCIAL INCENTIVE TO OCEAN COMMON CARRIERS

SUMMARY:

Staff requests approval of amendments to Port of Los Angeles (Port) Tariff No. 4 (Tariff) that would provide a financial incentive to an Ocean Common Carrier (OCC) that brings in to the Port, an ultra-large container vessel (ULCV) it operates to help evaluate the future feasibility of deploying ULCVs on an ongoing basis (ULCV Incentive Program). Provided certain eligibility requirements are met, an OCC would be eligible to receive a \$10.00 per loaded Twenty-foot Equivalent Unit (TEU) payment on its TEU Volume delivered to the Port. The ULCV Incentive Program would be limited to only one ULCV that OCC operates, and limited to one of that ULCV's visits to the Port. The maximum incentive amount an OCC could earn is \$150,000.

To qualify for the proposed ULCV Incentive Program, the ULCV would be required to have a minimum length of 398 meters, a minimum width of 54 meters, and a minimum delivery of 24,500 TEUs at the Port. In addition, the ULCV's Port visit would be required to comply with both the Port's Vessel Speed Reduction and Alternative Maritime Power (AMP) program or alternative technology, and transmit data in accordance with the data table described in Tariff item No. 2325. The ULCV Incentive Program under proposed Tariff Item No. 2327 would remain valid for one 12-month period commencing on March 1, 2019, and continue thereafter until terminated at the discretion of the City of Los Angeles Board of Harbor Commissioners (Board) by order of the Board.

The one-time payout to OCCs earned under the terms of the proposed OCC Incentive Program would be the financial responsibility of the Harbor Department.

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RECOMMENDATIONS:

It is recommended that the Board of Harbor Commissioners:

1. Find that the Director of Environmental Management has determined that the proposed action is administratively and categorically exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) and Article III Class 6(2) of the City of Los Angeles CEQA Guidelines;
2. Approve amendments to Port of Los Angeles Tariff No. 4, adding Section Twenty-Three, "Incentives - General Rules and Regulations," Item No. 2326 "Definitions Ocean Common Carrier – Ultra-Large Container Vessel Incentive Program" and Item No. 2327 "Ocean Common Carrier – Ultra-Large Container Vessel Incentive Program and Eligibility Requirements", subject to the California Association of Port Authorities' review and approval, and authorize the Executive Director to work with the California Association of Port Authorities to secure this approval or proceed to take independent action in accordance with the California Association of Port Authorities' procedure;
3. Adopt Permanent Order No. _____ to amend Port of Los Angeles Tariff No. 4, Section Twenty-Three, "Incentives - General Rules and Regulations", Item No. 2326 "Definitions Ocean Common Carrier – Ultra Large Container Vessel Incentive Program" and Item No. 2327 "Ocean Common Carrier – Ultra Large Container Vessel Incentive Program and Eligibility Requirements";
4. Direct the Board Secretary to transmit to the City Council for approval the Permanent Order and the Ordinance approving and authorizing the Amendments to Port of Los Angeles Tariff No. 4 pursuant to City Charter 653(a);
5. The Board Secretary shall certify to the adoption of this Order by the Board of Harbor Commissioners and shall cause the same to be published in a daily newspaper printed and published in the City of Los Angeles;
6. After the effective date of the Ordinance, transmit the Permanent Order and Ordinance to the Executive Director or his nominee for implementation and posting to the Port of Los Angeles website as regulated by the Federal Maritime Commission; and
7. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – December 2015 marked the month during which the Port received its first ULCVs. Since that time, five additional visits took place of container vessels measuring a minimum 398 meters in length and 54 meters in width. The Port's Strategic Plan recognizes its position as the number one container port in the nation by volume. In 2009, 2010, 2013, and 2018, the Board approved various incentive programs

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to assist the Port's marine terminals and OCCs and to maintain the Port's competitive position in the marketplace.

In order to capture a larger proportion of the Asia trade market share and maintain the Port's position as number one by container volume, Staff proposes amending the Tariff to include the OCC ULCV Incentive Program. If approved, the ULCV Incentive Program would allow an eligible OCC that brings one of its ULCVs to the Port to receive a \$10.00 per loaded TEU payment on its TEU Volume delivered to the Port. The ULCV Incentive, would be limited to only one ULCV that OCC operates, and limited to one of that ULCV's visits to the Port. The maximum incentive amount an OCC could earn is \$150,000. The proposed amendment would grant a one-time benefit to an OCC operating the ULCV, and is limited to strictly one ULCV that OCC operates for one of its vessel visits during the effective period of the proposed Tariff item. The ULCV Incentive Program under Item No. 2327 shall remain valid for a minimum period of 12 months commencing on March 1, 2019, and continue until terminated at the discretion of the City of Los Angeles Board of Harbor Commissioners.

An OCC operating the qualifying ULCV would be eligible to receive this ULCV Incentive if the following conditions are met:

- Minimum container vessel requirement: 398 meters in length and 54 meters in width;
- Minimum total container volume handled by the OCC operated ULCV including other OCC container volumes aboard such vessel shall be 24,500 TEU;
- The ULCV selected by the OCC for this program shall comply with the Port's Vessel Speed Reduction program, 40 nautical miles to/from Point Fermin, and shall use AMP, or an alternative technology during that vessel's port stay; and
- The OCC shall meet the data requirements as stated in the Port Tariff, Item No. 2325

Payments made under this program, if any, shall be paid in a one-time only lump sum payment. The maximum incentive amount an OCC could earn is \$150,000. An OCC can only qualify once for this ULCV Incentive Program. At present, it is anticipated that nine OCC's would qualify to receive an incentive under the proposed ULCV incentive program.

The Harbor Department, within 30 days receipt of OCCs TEU Volumes, shall determine the actual monetary payment based on the OCC's data, per Tariff Item No. 2325, and the Terminal Operator supplied container report.

An OCC that, prior to the approval of this proposed Tariff amendment, received a financial incentive directly, or indirectly through a previously Board approved permit amendment is no longer eligible to receive an ULCV Incentive under this proposed Tariff amendment.

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OCCs that merged their container shipping operations into a newly formed or existing OCC shall be eligible for this incentive program, unless one or more of the merged OCCs previously received a financial incentive directly, or indirectly through a previous Board approved permit amendment relating to the handling of that OCC's operated ULCV that called at the Port.

Need for Approval – A separate action recommends Board adoption of a Temporary Order within its Los Angeles City Charter authority to approve changes to Tariff No. 4, to be effective for a period not to exceed 90 days. This action for Board and City Council adoption of a Permanent Order (Transmittal 1) and Ordinance (Transmittal 2) are required under the Charter to make changes to Tariff No. 4 (Transmittal 3) beyond the Temporary Order's 90-day effective period.

ENVIRONMENTAL ASSESSMENT:

The proposed action is an amendment to Port of Los Angeles Tariff No. 4 adding the "Ocean Common Carrier – Ultra Large Vessel Incentive Program" to incentivize growth in container volume, which is an administrative activity involving basic data collection and research. Therefore, the Director of Environmental Management has determined that the proposed action is administratively and categorically exempt from CEQA in accordance with Article II Section 2 (f) and Article III Class 6(2) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

The proposed ULCV Incentive Program is expected to incrementally benefit operating revenues assuming that an OCC would not deploy a ULCV to a Port terminal absent this incentive.

For a given ULCV operated by an OCC and incentivized under the proposed amendment, the maximum incentive payout to that individual OCC would be \$150,000. Depending upon the terminal at which an incentivized ULCV calls, the incremental revenues associated with that incentivized ULCV call has been estimated to range anywhere from \$230,680.40 to \$953,352.77.

Assuming that nine OCC's are ultimately incentivized under this program while it is in effect, net benefits have been estimated as follows:

	Low Case		High Case	
Incremental Revenue	\$	230,680.40	\$	953,352.77
Incentive Payout	\$	(150,000.00)	\$	(150,000.00)
Net Incremental Benefit	\$	80,680.40	\$	803,352.77
Multiply by: 9 potential OCC's		9		9
Equals: Aggregate Benefit	\$	726,123.64	\$	7,230,174.94

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These estimates are subject to change depending upon market factors and terminal-specific amendments which may impact vessel routing decisions and ultimately the amount of benefit realized from the ULCV Incentive Program.

FY 2019 funding for the proposed ULCV Incentive Program has not been included within the FY 2019 Adopted Budget. Depending upon the amount of any incentive due under the proposed ULCV Incentive Program in FY 2019, a separate Board action may be required in order to fund the incentive payout amount due.

Funds for the ULCV Incentive Program will be requested to be included within the FY 2020 budget and future fiscal year budgets as part of the annual budget adoption process subject to Board approval so long as the ULCV Incentive Program remains in effect.

CITY ATTORNEY:

The Office of the City Attorney has prepared and approved the proposed Permanent Order and the proposed Ordinance as to form and legality.

TRANSMITTALS:

1. Permanent Order
2. Ordinance
3. Tariff No. 4 Section Twenty-Three, Item Nos. 2326 and 2327



ERIC CARIS
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FIS Approval: *MB*
CA Approval: *gm*



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