



Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: AUGUST 7, 2012**

**FROM: BUSINESS & TRADE DEVELOPMENT**

**SUBJECT: PERMANENT ORDER NO. \_\_\_\_\_ AMENDING ITEMS 550/560-050, 550/560-600, 550/560-605, 550/560-610, 550/560-615, 550/560-620 AND 550/560-625 OF THE PORT OF LOS ANGELES TARIFF NO. 4, SECTION FIVE, PETROLEUM AND PETROCHEMICAL PRODUCTS**

**SUMMARY:**

The Port of Los Angeles (POLA) is proposing to increase wharfage rates on petroleum products, to keep consistent with prevailing rates. The last increase was in 2005. Staff is recommending the Board of Harbor Commissioners (Board) adopt a Permanent Order amending POLA Tariff No. 4, Items 550/560-050, 550/560-600, 550/560-605, 550/560-610, 550/560-615, 550/560-620, and 550/560-625 increasing liquid bulk wharfage rates (per barrel) for crude oil and bunker fuel from \$0.072 to \$0.085, for other refined petroleum products from \$0.085 to \$0.096, and for petrochemicals (per kilo ton) from \$1.64 to \$1.76. These increases will bring wharfage rates for these commodities equal to that of the Port of Long Beach (POLB). The commencement date for these increases will be January 1, 2013.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners:

1. Approve the amendment to Items 550/560-050, 550/560-600, 550/560-605, 550/560-610, 550/560-615, 550/560-620, and 550/560-625, subject to the California Association of Port Authorities review and approval, and that the Board authorize the Executive Director to work with California Association of Port Authorities to secure this approval or proceed to take independent action in accordance with California Association of Port Authorities procedure;
2. Adopt Permanent Order No. \_\_\_\_\_ to amend Items 550/560-050, 550/560-600, 550/560-605, 550/560-610, 550/560-615, 550/560-620, and 550/560-625 in the Port of Los Angeles Tariff No. 4, Section Five, Petroleum and Petrochemical Products;
3. Direct the Board Secretary to transmit to the City Council for approval the Permanent Order and the Ordinance approving and authorizing the proposed Amendment to the Port of Los Angeles Tariff No. 4 pursuant to City Charter 653(a); and

**DATE: AUGUST 7, 2012**

**PAGE 2 OF 5**

**SUBJECT: PERMANENT ORDER AMENDING PORT OF LOS ANGELES TARIFF NO. 4, SECTION FIVE, PETROLEUM & PETROCHEMICAL PRODUCTS**

4. After the effective date of the Ordinance, authorize the Board Secretary to transmit the Order and Ordinance to the Chief Wharfinger for implementation and posting to the Port of Los Angeles website as regulated by the Federal Maritime Commission.

**DISCUSSION:**

Background – The San Pedro Bay, comprised of POLA and POLB, is responsible for 48% of the United States West Coast petroleum import/export market. In the last three years, POLA handled an average of 74 million barrels of petroleum products and the POLB handled an average of 160 million barrels of petroleum products, annually, of which crude oil is the vast majority. Petroleum products include; bunker fuels used in fueling ships, fully refined fuels such as aviation fuel, gasoline or diesel and feed stocks that are required as additives to the refining process.

The petroleum products handled in the San Pedro Bay supply six oil refineries and third party oil traders in Southern California. Petroleum products are used by end consumers in Southern California, Arizona and Nevada, and support shipping operations in the San Pedro Bay. A thorough analysis of liquid bulk wharfage rates at other West Coast Ports, including the POLB, showed that POLA's liquid bulk wharfage rates were below market and an increase in wharfage rates would not result in losing existing market share. POLA's current wharfage rates are between 11 and 15 percent below POLB's wharfage rates for the same commodities. Staff is recommending an increase in wharfage rates (Transmittal 1 and 2) to levels comparable to those of POLB.

The recommended increases are:

- \$0.013 per barrel for crude oil and bunker fuel, from \$0.072 to \$ 0.085.
- \$0.011 per barrel for other refined petroleum products, from \$0.085 to \$0.096.
- \$0.12 per kilo ton for petrochemicals from \$1.64 to \$1.76.

The last wharfage increase for these commodities occurred in 2004 and 2005, when wharfage on all commodities, including liquid bulk commodities were increased five percent as part of a General Rate Increase.

Liquid bulk terminal operators in the San Pedro Bay pay wharfage and dockage charges for the movement of commodities over the wharf and minimum annual rent comprised of either land rent alone or a combination of land and improvements rent. All of these charges collectively make up the total charge a tenant pays to move commodities onto or off of ships. POLA and POLB have different revenue collection methodologies for liquid bulk terminal leases and in some cases there are differences between POLB's separate liquid bulk leases. POLB provides revenue sharing (reduced wharfage and dockage rates) to some of its liquid bulk tenants after they have met minimum annual rent obligations. Revenue sharing is either not provided or phased out in the first five

**DATE: AUGUST 7, 2012**

**PAGE 3 OF 5**

**SUBJECT: PERMANENT ORDER AMENDING PORT OF LOS ANGELES TARIFF NO. 4, SECTION FIVE, PETROLEUM & PETROCHEMICAL PRODUCTS**

years in POLB's two most recent liquid bulk agreements. By comparison, POLA does not provide revenue sharing to any tenants.

Additionally, methodologies for setting minimum annual rent are different between the two Ports. The POLB establishes minimum annual rent based on land and improvements with wharfage and dockage collected in lieu of the minimum annual rent. Conversely, POLA collects minimum annual rent for land separately, in addition to all wharfage and dockage. POLB also handles a significant amount of crude oil which POLA currently does not handle. Crude oil is generally transported and delivered in larger and more consistent quantities over a fixed period of time. This results in higher and more consistent revenues which provide the basis for revenue sharing and offsetting of minimum annual rent with wharfage and dockage charges. POLA could handle large amounts of crude oil in the coming years, when the Board approves the permit for the Pier 400 facility by Plains All American Pipeline, LLP.

Although there are differences between the two Ports revenue collection methodologies, when considering new wharf investments required by Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS), applying the POLB methodology would not result in discounted wharfage and dockage rates for the great majority of POLA's tenants. More importantly, the Ports share a similar diverse tenant mix of refiners and third party operators that compete in the same market. These similarities between the Ports provide the basis for increasing POLA's wharfage on petroleum products to be in line with POLB's current rates.

A market comparison was made with other West Coast Ports. Although, Ports collect wharfage differently and use a different methodology, POLA staff believes the initial first step is to increase wharfage rates comparable to the POLB. A future market analysis will be undertaken as part of the Revenue Committee's rate analysis. In February 2012, the POLA approached each of its existing liquid bulk tenants with a proposal to increase the current wharfage rates for petroleum products. The tenants had an opportunity to submit written comments to this proposal. There were no written objections made by the existing tenants.

Need for Amendment – The proposed Permanent Order and Ordinance (Transmittals 3 and 4) to amend POLA Tariff No. 4 would align POLA's wharfage rates with the San Pedro Bay market for processing liquid bulk commodities at POLA terminals and provide a benefit to POLA and the liquid bulk facilities by allowing POLA to maintain competitive facilities, now and in the future.

**DATE: AUGUST 7, 2012**

**PAGE 4 OF 5**

**SUBJECT: PERMANENT ORDER AMENDING PORT OF LOS ANGELES TARIFF NO. 4, SECTION FIVE, PETROLEUM & PETROCHEMICAL PRODUCTS**

The implementation of the MOTEMS, which is essentially a building code revision applying to all liquid bulk wharf structures, has and will continue to increase maintenance and capital cost requirements for these structures. Under the oversight of the California State Lands Commission, POLA engaged in audits of all of its liquid bulk facilities and as a result of those audits has spent significant funds making repairs to maintain minimum standards for existing wharf structures. MOTEMS required various critical repairs to be completed immediately to maintain operations. The great majority of these repairs have been made. The next step in the MOTEMS process will be much more expensive with complete wharf rebuilds or large scale retrofits required to meet the code requirements. Maintaining competitive wharfage rates is critical to adequately funding these expenditures and remaining competitive in the liquid bulk market.

As the Southern California area is an "energy island" with no pipeline connection to refineries in the San Francisco Bay Area or Gulf Coast, regional refining and trading of petroleum products is dependent on water access. Long term sustainability of POLA's liquid bulk terminal is important for the region, and these rate increases will help to maintain these facilities.

Harbor Department Fiscal Requirements - The proposed Permanent Order to amend POLA Tariff No. 4 will not require funding by the Harbor Department.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is a tariff amendment that would increase the current liquid bulk wharfage rates, which is an amendment to POLA Tariff No. 4 Items 550/560-050, 550/560-600, 550/560-605, 550/560-610, 550/560-615, 550/560-620 and 550/560-625, on January 1, 2013. As an administrative activity, the Director of Environmental Management has determined that 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.

**ECONOMIC BENEFITS:**

Approval of the proposed Order will have no employment impact.

**FINANCIAL IMPACT:**

If approved, the proposed liquid bulk wharfage rate increases will take effect on January 1, 2013. Based on fiscal year 2011/2012 additional Wharfage revenue would increase by \$848,500 annually. The Fiscal Year 2012/2013 operating revenue budget excludes the anticipated additional revenue from the proposed liquid bulk Wharfage increases.

DATE: AUGUST 7, 2012

PAGE 5 OF 5

SUBJECT: PERMANENT ORDER AMENDING PORT OF LOS ANGELES TARIFF  
NO. 4, SECTION FIVE, PETROLEUM & PETROCHEMICAL PRODUCTS

CITY ATTORNEY:

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

TRANSMITTALS:

1. POLA Tariff No. 4, Section Five, page 53, 56-A, 73, and 76-A
2. Matrix "Proposed Liquid Bulk Rate Increase"
3. Permanent Order
4. Ordinance

FIS Approval: KR (initials)

CA Approval: PM (initials)

*for* Michael De Bernardo  
KRAIG JONDLE  
Director of Business & Trade Development

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