



Executive Director's  
Report to the

Board of Harbor Commissioners

**DATE: SEPTEMBER 30, 2014**

**FROM: REAL ESTATE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - APPROVE SUCCESSOR  
PERMIT NO. 909 WITH TESORO SOCIAL PIPELINE COMPANY LLC**

**SUMMARY:**

Proposed successor Permit No. 909 between the City of Los Angeles Harbor Department (Harbor Department) and Tesoro SoCal Pipeline Company LLC (Tesoro), an oil pipeline operator, grants Tesoro the use of 23,701 square feet (s.f.) of two non-contiguous subsurface land areas for a term of 20 years. The premises, located in East Wilmington, are for the operation and maintenance of existing subsurface pipelines for transportation of petroleum products.

It is proposed that compensation be set at \$34,366 annually, based on the Harbor Department receiving a 10 percent annual rate of return on a negotiated land value of \$29 per s.f., with subsurface parcels discounted by 50 percent. Successor Permit No. 909 will also include a Consumer Price Index (CPI) escalator. The \$2.90 per s.f. per year land rent is a negotiated rent and is consistent with market rent in the East Wilmington area.

**RECOMMENDATION:**

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

1. Approve Permit No. 909 with Tesoro SoCal Pipeline Company LLC;
2. Direct the Board Secretary to transmit Permit No. 909 to the Los Angeles City Council for approval pursuant to Section 606 of the City's Charter;
3. Authorize the Executive Director to execute and the Board Secretary to attest to Permit No. 909 upon approval by the City Council; and
4. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:**

Background/Context – The original revocable permit (RP No. 12-09) was with BP West Coast Products LLC and ARCO Terminal Services Corporation (BP/ARCO) and became effective on December 12, 2012, conditioned on the Board's review of the revocable permit on the fifth anniversary of its issuance.

In August 2012, Tesoro informed the Harbor Department that it was in the midst of acquiring the ownership rights of all the BP/ARCO subsurface pipelines in the Wilmington area, including those pipelines under RP No. 12-09.

**SUBJECT: PROPOSED SUCCESSOR PERMIT NO. 909 WITH THE TESORO SOCIAL PIPELINE COMPANY LLC**

In June 2013, the Harbor Department was notified that Tesoro's acquisition of the BP/ARCO pipeline facilities had been finalized and it was requesting an entitlement for those subsurface pipelines. The Harbor Department decided that the issuance of a 20-year term permit would be the appropriate entitlement because of the long-term national economic need for Tesoro's petroleum products. The parties then went through a negotiation period before the parties mutually agreed to the terms and conditions of the new permit (Transmittal 1).

Permit No. 909 contains the latest language related to pipeline inspections and testing, compliance with state rules and regulations specific to pipelines, and language that ensures that responsibility for contamination under the previous permit is transitioned to the new successor permit.

Proposed Permit Summary:

Effective Date: The proposed 20-year successor permit shall become effective upon approval by the City Council, pursuant to Charter Section 606 of the City's Charter.

Use: The operation and maintenance of existing subsurface pipelines for transportation of petroleum products.

Premises: Two non-contiguous subsurface land areas located in East Wilmington (Transmittal 2). The two subsurface land areas are further described in Exhibit A of Permit No. 909.

Term: 20 years

Compensation: The annual compensation for 23,701 s.f. of subsurface land will be \$34,366 per year for Permit No. 909, which equates to a 17 percent annual rental increase from the current rent of \$29,399 under the existing revocable permit. Compensation is based on receiving a 10 percent rate of return on a land value of \$29 per s.f., with a subsurface discount of 50 percent. The proposed compensation conforms to the Board's adopted rate of return policy of 10 percent on land.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of Permit No. 909 with Tesoro for a term of 20 years for continued operation and maintenance of existing subsurface pipelines in the Wilmington area for transportation of petroleum products. The issuance of a permit would not expand the size or capacity of the existing subsurface pipelines or otherwise alter the intended use of the pipelines. Therefore, as an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS:**

This Board action will have no direct employment impact.

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**FINANCIAL IMPACT:**

Approval of the proposed 20-year successor permit will result in Tesoro paying the Harbor Department an annual rent of \$34,366 for 23,701 s.f. of subsurface land, with a rental adjustment for every five-year period of the 20-year term, as required by the City of Los Angeles Charter. In addition, the proposed compensation will be adjusted annually based on CPI. The proposed rent for Permit No. 909 equates to a 17 percent annual rental increase from the current rent of \$29,399 under RP No. 12-09.

The proposed fixed land rent compensation conforms to the Board's adopted rate of return policy of 10 percent on land value of \$29 per s.f., discounted by 50 percent for subsurface use.

**CITY ATTORNEY:**

Successor Permit No. 909 has been approved as to form and legality by the Office of the City Attorney.

**TRANSMITTALS:**

1. Proposed Permit No. 909
2. Site Map

FIS Approval: MP (initials)  
CA Approval: ca (initials)

  
JACK C. HEDGE  
Director of Real Estate

  
DAVID L. MATHEWSON  
Interim Deputy Executive Director

APPROVED:

  
EUGENE D. SEROKA  
Executive Director