



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: SEPTEMBER 10, 2014

FROM: PLANNING & ECONOMIC DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ - VOPAK MOTEMS COMPLIANCE PLAN

SUMMARY:

The Port of Los Angeles (Port) 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 replacement or significant upgrades of all liquid bulk wharves in the Port. Through ongoing discussions with the California State Lands Commission, which oversees MOTEMS, the City of Los Angeles Harbor Department (Harbor Department) has agreed to effectuate full compliance by 2018.

In 2011, Harbor Department staff developed a MOTEMS Implementation Strategy (MIS) which proposed to relocate Vopak to Berths 148-151. On November 1, 2012, the Board of Harbor Commissioners (Board) directed staff to revise the MIS by relocating Vopak's berthing operations and selected tanks from Berths 187-190 to Berths 191-194 (Vopak Plan) instead of relocating to Berths 148-151. On July 2, 2014, Vopak informed the Port that the Vopak Plan was no longer financially feasible due to estimated project cost increases and prolonged market volatility. Vopak has requested to remain in their existing location conditioned on Vopak making an investment of \$4 million in odor abatement and aesthetic mitigation and a \$5 million contribution to community projects or programs in the Wilmington community.

Harbor Department staff requests input and direction from the Board on Vopak's proposed revision to the MIS. Staff will then work with Vopak to implement MOTEMS compliance consistent with the Board's input and direction.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Provide staff with input and direction on the proposed Vopak MOTEMS Compliance Plan, 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

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mutually acceptable agreements that will require the review and approval of City of Los Angeles (City) entities including, without limitation, the Board 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.

2. Adopt Resolution No. _____.

DISCUSSION:

Vopak Background/Context – Vopak’s marine oil terminal is located in Wilmington at Berths 187-190 adjacent to the Banning’s Landing Community Center and the future water access point of the Wilmington Waterfront Development project. Vopak’s terminal consists of two wharf structures, adjacent tank storage and an inland tank farm on Port property north of Pacific Coast Highway which is attached to the marine terminal by pipelines. Vopak occupies a total of 35 acres of Port property, and their current permit expires in 2023. Vopak provides third party liquid bulk transportation and storage logistics for various customers and provides approximately 70 percent of the bunker fuels to the San Pedro Bay shipping industry and up to 25 percent of aviation fuel required by Los Angeles World Airport. Vopak’s waterfront site also includes a cement import facility operated by Cal Portland Cement.

MOTEMS Implementation Strategy – MOTEMS regulations apply to all seven existing Port marine oil terminals (Transmittal 1). The MIS was developed in response 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) limit 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.

In 2010, as planning for MOTEMS redevelopment commenced, Harbor Department staff informed Vopak that they would be required to relocate to another site (Berths 148-150 current Phillips 66 site) within the Port at the end of their term in 2023 or sooner if possible. The relocation was requested to address perceived land use conflicts with the Banning’s Landing Community Center and planned Wilmington Waterfront Development. The relocation also required that Phillips 66 consolidate operations with ExxonMobil at Berths 238-240 on Terminal Island (Transmittal 2). In 2011, the plan to

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move Vopak and consolidate Phillips 66 and ExxonMobil was included in the MIS. From 2011 to 2012, Vopak worked with several Wilmington community groups to address perceived land use conflicts and find an alternative redevelopment solution to avoid relocation, which Vopak claimed was not feasible financially.

Staff presented the MIS to the Board in two open session forums in August and November 2012. The MIS presentation also allowed liquid bulk industry participants the opportunity to make independent presentations. Phillips 66 made a presentation highlighting its disagreement with the plan based on concern over potential anti-trust issues related to sharing a marine oil terminal with a direct competitor. Vopak proposed an alternative conceptual reconfiguration plan referred to as the Vopak Plan. The Vopak Plan proposed not to relocate Vopak but instead to reconfigure their current operation. The proposed reconfiguration proposed relocation of tank storage and berthing operations from Berths 187-190 to Berths 191-194 including redevelopment of new MOTEMS compliant berths (Transmittal 3). The Vopak Plan also created a landscaped buffer area adjacent to Banning's Landing including a relocation area for the USC rowing team's operation, which would be displaced because of the Vopak Plan. In 2012, the conceptual Vopak Plan was estimated to cost \$67 million consisting of investments of \$45 million for Vopak and \$22 million for the Port. The Vopak Plan would not increase Vopak's operational capacity. In November 2012, the Board directed staff to work with Vopak to pursue the Vopak Plan and not to pursue consolidation of the Phillips 66 and ExxonMobil marine oil terminals.

Vopak's Current Proposal – In December of 2012, Vopak commenced detailed engineering for the conceptual Vopak Plan. In December of 2013, Vopak expressed concerns to Harbor Department staff regarding conceptual design cost estimates that reached \$82 million due to unanticipated redundant MOTEMS seismic improvements at the existing and new berth for pipeline support, significant costs to upgrade Berth 189 for cement import operations, and overall project scope increases related to more detailed design. In early 2013, Vopak lost two long-term bunker fuel customers, which left approximately 35 percent of their total tank storage of 2.4 million barrels vacant. This vacancy lasted until early 2014 when a new bunker fuel customer occupied a portion of the vacant tanks. As a result of prolonged market volatility, a significant portion of Vopak's tanks remain vacant to date. According to Vopak, this has been an unprecedented loss of business in relation to both scale and duration for Vopak's San Pedro Bay operation. Due to the significant estimated cost increases and prolonged volatility in Vopak's core bunker fuel storage business, Vopak informed the Port that they no longer believed the Vopak Plan was financially feasible. Harbor Department staff directed Vopak to work with community organizations to achieve consensus on an alternative plan if the Vopak Plan was no longer feasible.

On July 2, 2014, Vopak sent the Port the attached letter (Transmittal 4) requesting to achieve MOTEMS compliance by developing MOTEMS compliant wharves at their current location through a "Stay in Place Plan". Vopak's letter provides details on their

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proposed Stay in Place Plan including on site odor control mitigation, on site landscaping mitigation and a \$5 million contribution to the Wilmington community to be used for future community programs or projects. Vopak has worked actively with several community groups including the Wilmington Neighborhood Council and the Wilmington Chamber of Commerce to develop a project funding process to ensure Vopak's community investment provides broad and long lasting community benefits for Wilmington. Vopak's letter includes letters of support from the Wilmington Neighborhood Council (Transmittal 5), Wilmington Chamber of Commerce (Transmittal 6) and Council District Fifteen (Transmittal 7).

Vopak's Stay in Place Plan reduces the amount of proposed Port investment by approximately \$7 million (\$22 million vs. \$15 million) as redevelopment of the rock slope and dredging at Berths 191-194 is not necessary. The Port's investment in the Stay in Place Plan would be \$7.5 million per berth with a total investment of \$15 million for Vopak's two berths. Vopak's costs (including proposed odor abatement, landscaping, and community contribution) under the Stay in Place Plan are estimated to be between \$35 and \$45 million. The Stay in Place Plan will also provide significant schedule advantages and should achieve MOTEMS compliance one to two years earlier than the previously discussed Vopak Plan.

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 Port Permit, which would be subject to environmental review under CEQA and NEPA, as appropriate. Therefore, as an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Board action on this item will have no employment impact.

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FINANCIAL IMPACT:

Under the revised MIS Vopak Plan, the Harbor Department proposed to invest \$22 million including \$15 million for two new MOTEMS compliant berths (\$7.5 million each) and \$7 million in rock slope development and dredging at Berths 191-194. Under the proposed Stay in Place Plan the Port's investment would be \$15 million for two new MOTEMS compliant berths (\$7.5 million each).

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. Liquid Bulk Terminals Map
2. MOTEMS Implementation Strategy Map
3. Vopak Plan
4. July 2, 2014 Letter from Vopak
5. Letter of Support – Wilmington Neighborhood Council
6. Letter of support – Wilmington Chamber of Commerce
7. Letter of Support – Council District 15

FIS Approval: MR (initials)
CA Approval: MR (initials)


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