

Staff Report 28

LESSEE:

SFPP, L.P.

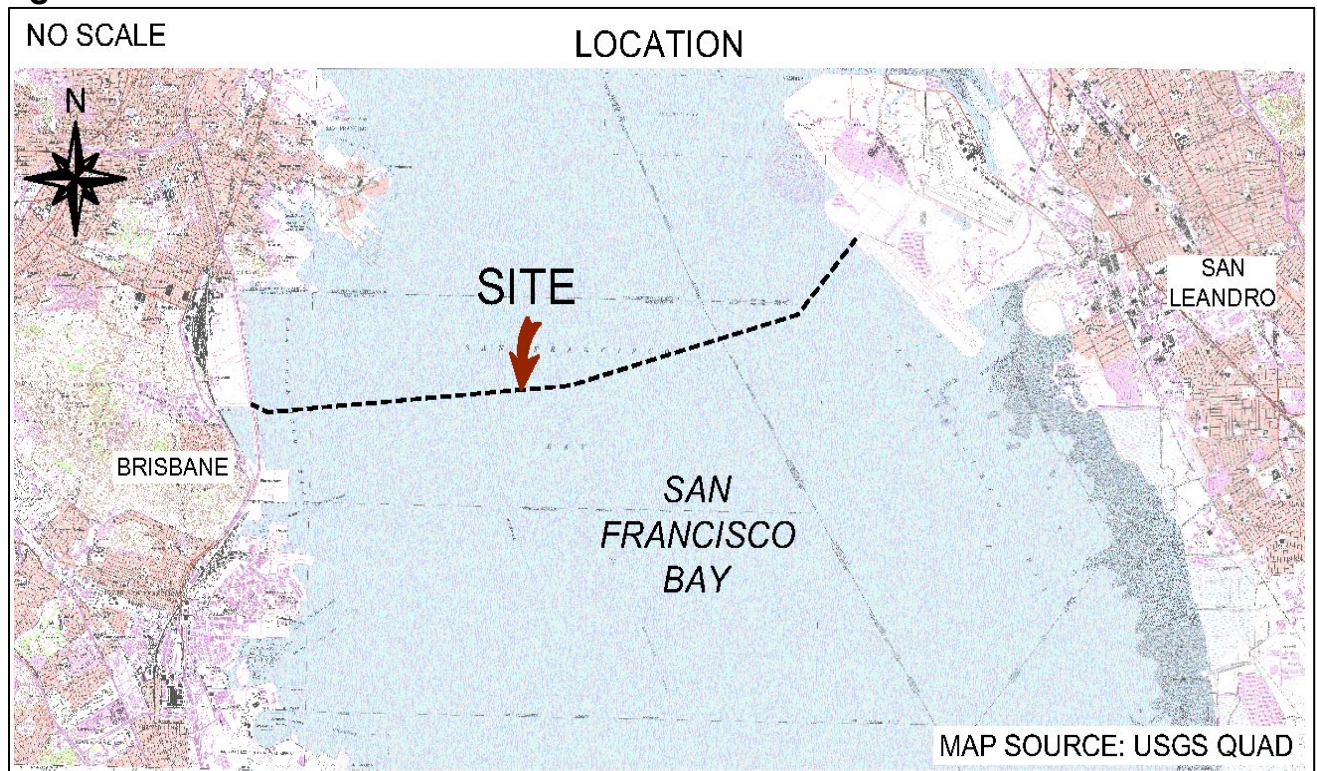
PROPOSED ACTION:

Revision of Rent and Bond.

AREA, LAND TYPE, AND LOCATION:

37.57 acres, more or less, of sovereign land in the San Francisco Bay between San Mateo and Alameda Counties (as shown in Figure 1).

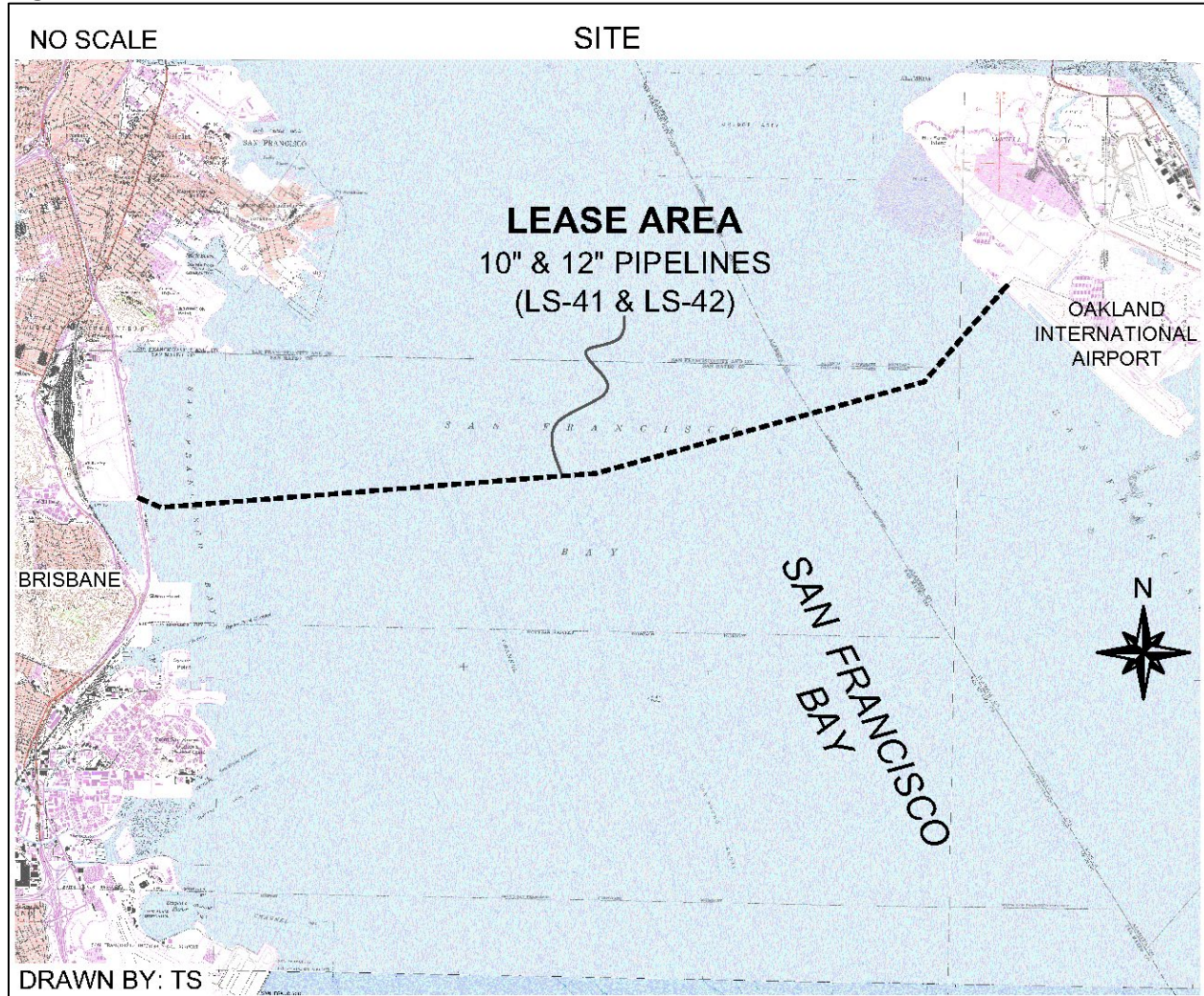
Figure 1. Location



AUTHORIZED USE:

Continued use and maintenance of one 10-inch-diameter and one 12-inch-diameter petroleum pipelines (as shown in Figure 2).

Figure 2. Site Map



NOTE: This depiction of the lease premises is based on unverified information provided by the Applicant or other parties and is not a waiver or limitation of any State interest in the subject or any other property.

TERM:

20 years, beginning April 1, 2013.

CONSIDERATION:

The lease provides that Lessor may modify the rent and bond periodically during the lease term. Pursuant to this provision, staff has conducted a review of the rent

and bond under this lease and recommends that the rent be revised from \$320,880.92 per year to \$396,923 per year, and the bond revised from \$1,500,000 to \$30,000,000, effective April 1, 2024.

OTHER PERTINENT INFORMATION:

1. Approval or denial of the revision of rent and bond is a discretionary action by the Commission. Each time the Commission approves or rejects a revision of rent and bond, it exercises legislatively delegated authority and responsibility as trustee of the State's Public Lands as authorized by law. The Lessee has no right to a new lease or to renewal of any previous lease.
2. On September 20, 2013, the Commission authorized a General Lease – Right-of-Way Use ([September 20, 2013, Item 29](#)) to SFPP, LP for two existing petroleum pipelines, one 10-inch-diameter and one 12-inch-diameter, crossing the San Francisco Bay in San Mateo and Alameda Counties. The lease will expire on March 31, 2033. At the same meeting, the Commission authorized two other leases to the lessee, PRC 9040 for two petroleum pipelines crossing the Carquinez Strait and PRC 9042 for various petroleum pipelines in various waterways, statewide. The three leases are referred to as Master Leases with the lessee.
3. Under the terms of the three Master Leases, the lessee holds a total surety bond in the amount of \$1,500,000 along with a Parent Performance Guaranty that simultaneously satisfies the lessee's bond and security obligations of the three Master Leases. This amount is subject to increases over the lease term and serves the purpose of being able to mitigate costs that might otherwise be shouldered by the state, including where the state must take restorative actions with the leased premises upon lease termination or lease premises abandonment. A bond adjustment is currently appropriate to keep the amount consistent with estimated current removal costs and other leases and to minimize the state's potential liability. Staff recommend an increase in the surety bond for this lease from \$1,500,000 to \$30,000,000. The estimated cost of removal from our engineering staff for removal of the two pipelines crossing the Bay is approximately \$26 million, but that estimate does not include environmental analysis and other contingencies. Accounting for the other costs associated with removal brings the recommended required bond to \$30 million. Rent and bond revisions recommendations for Master Leases PRC 9040 and PRC 9042 will be considered at the December 5, 2023 Commission meeting under separate staff reports.

4. The lease requires depth of coverage burial surveys of the submerged pipelines every five years. In 2021, a remediation plan was submitted for the project to bury the exposed segments of the pipelines in the San Francisco Bay. Because of objections by other permitting agencies with elements of the plan for burial and coverage, the project has not started. Staff continue to work with the lessee to complete the remediation.
5. This action is consistent with the "Address current and future risk and liabilities" in the "Meeting Evolving Public Trust Needs" Strategic Focus Area of the Commission's 2021-25 Strategic Plan.
6. Approving the revision of rent and bond is not a project as defined by the California Environmental Quality Act because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, section 15378, subdivision (b)(5).

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

Approve the revision of rent for Lease PRC 9041 from \$320,880.92 per year to \$396,923 per year, and revision of bond from \$1,500,000 to \$30,000,000 effective April 1, 2024.