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Report to Mayor and City Council
Tuesday, October 18, 2016

Discussion

SUBJECT:

OIL PIPELINE FRANCHISE AUDIT RESULTS (CITY COUNCIL)

I. SUMMARY

The City Council for the very first time commissioned a study of unaccounted and outstanding oil pipeline franchise payments. The pipeline audit disclosed $403,800 in unaccounted and outstanding franchise payments. The study also identified several revisions to the City's Oil Pipeline Franchise Ordinance and recommends increasing pipeline fees. Staff is currently working with the City Attorney on a comprehensive revision to the ordinance.

II. RECOMMENDATION

Council should direct staff to contact the eight pipeline operators that were identified as delinquent and request payment of their outstanding balances. Until the ordinance revisions are completed, Council should consider placing additional conditions on pipeline franchise agreements as they are being renewed to implement the intent of the ordinance.

III. ALTERNATIVES

Council may direct staff to take other appropriate actions.

IV. BACKGROUND

The City has faced budget deficits in seven of the last ten fiscal years. Council grew concerned that oil pipeline franchise revenues were under-reported, and requested that staff complete an audit of the franchises and to review pipeline fees assessed in surrounding communities. The City retained Municipal Petroleum Analysts (MPA) to complete the audit and the fee survey.

Under-Reported/Unaccounted Pipeline Fees

MPA concluded that the City had for a number of years lost revenues from eight pipeline companies, which resulted in the under collection of $403,800 in pipeline franchise revenue. The following companies were identified:

Company	**Amount Uncollected**
Tesoro	$88,000
Dow Chemical	$3,800
Kinder Morgan	$46,000
Mobile Pacific Pipeline	$8,500
Shore Terminal	$13,000
Tosco (Phillips 66)	$193,000
Paramount Petroleum	$46,000
Equilon Pipeline	$5,500
Total	***$403,800***

The City has thirty active pipeline franchises. The franchise agreements regulate over 784,000 lineal feet of oil, gas and chemical-carrying pipelines occupying Carson's streets and rights-of-way. This represents 29% of the total pipelines in the community. Exxon Mobile, ConocoPhillips, Shell and Tesoro own 65% of the franchise regulated pipeline. The City currently collects $1.2 million annually in pipeline franchise revenue.

MPA found that thirteen fee payment discrepancies existed, totaling $403,800. They also noted a concern that the pipeline mileage being reported to the City was undercounted due to "self-reporting" by franchise holders. This underreporting has resulted in franchise fees not being fully paid. MPA made the following recommendations:

A. Update Carson's Pipeline Franchise Code - The original code dates to 1978 and the pipelines are aging. The City is currently updating its code to better protect and improve the City's environmental, public safety and financial interests.

B. Modernize Carson's Franchise Agreements - The consultant is recommending that Carson no longer allow twenty-five year agreements and that the term of agreements be no more than ten years. Other changes are recommended, including new franchisees pre-paying their future annual fees.

C. Resolve Unreported, Underreported and Common Carrier Pipe - The City has begun the process of identifying underreported pipeline footage. The City has been requiring improved GIS information from the franchisees in order to prevent under reporting of pipeline footage and the corresponding loss of franchise fee revenues to the City.

Pipeline Franchise Fees

MPA also recommended that the City consider increasing its pipeline franchise fee, which has not been adjusted in several years. The consultant surveyed pipe line fees in twenty-one nearby cities. Carson's fee is currently $2.88 per lineal foot of pipe. Fees in the City of Los Angeles are $3.39 per lineal foot, while in the City of Paramount the fee is $3.45 per lineal foot. Adopting the $3.45 per lineal foot would result in $186,000 in additional in annual revenues citywide.

V. FISCAL IMPACT

Collection of all of the outstanding oil pipeline franchise payments would result in $403,000 in additional revenues to the budget. Improving the City's franchise verification process will also result in additional ongoing revenues to the City's budget. Adoption of the proposed fee increase would result in $186,000 in additional revenues.

VI. EXHIBITS

None

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