



Jones Act Waiver

Western Regional Emergency Fuel Coordination Meeting

California Energy Commission
Sacramento, CA

September 29, 2016

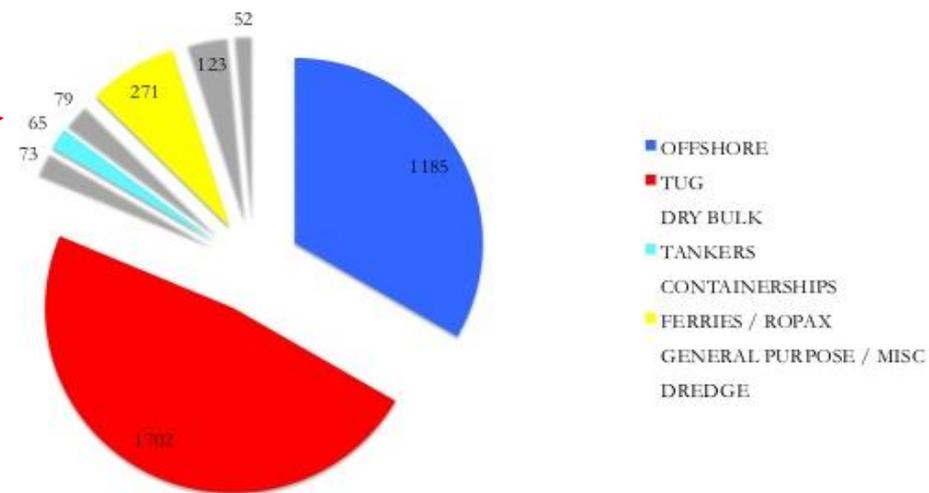
Gordon Schremp
California Energy Commission



Jones Act - Origins

- Merchant Marine Act of 1920, §27, P.L. 66-261
- Vessels transporting cargo between two U.S. points
 - U.S. flagged
 - Constructed in a U.S. shipyard
 - At least 75 percent owned by U.S. citizens
 - Crewed by U.S. citizens
 - Follow U.S. safety regulations
- Only small portion tankers
 - 65 vessels
 - Less than 2 percent

AMERICAN-FLAGGED FLEET BREAKDOWN

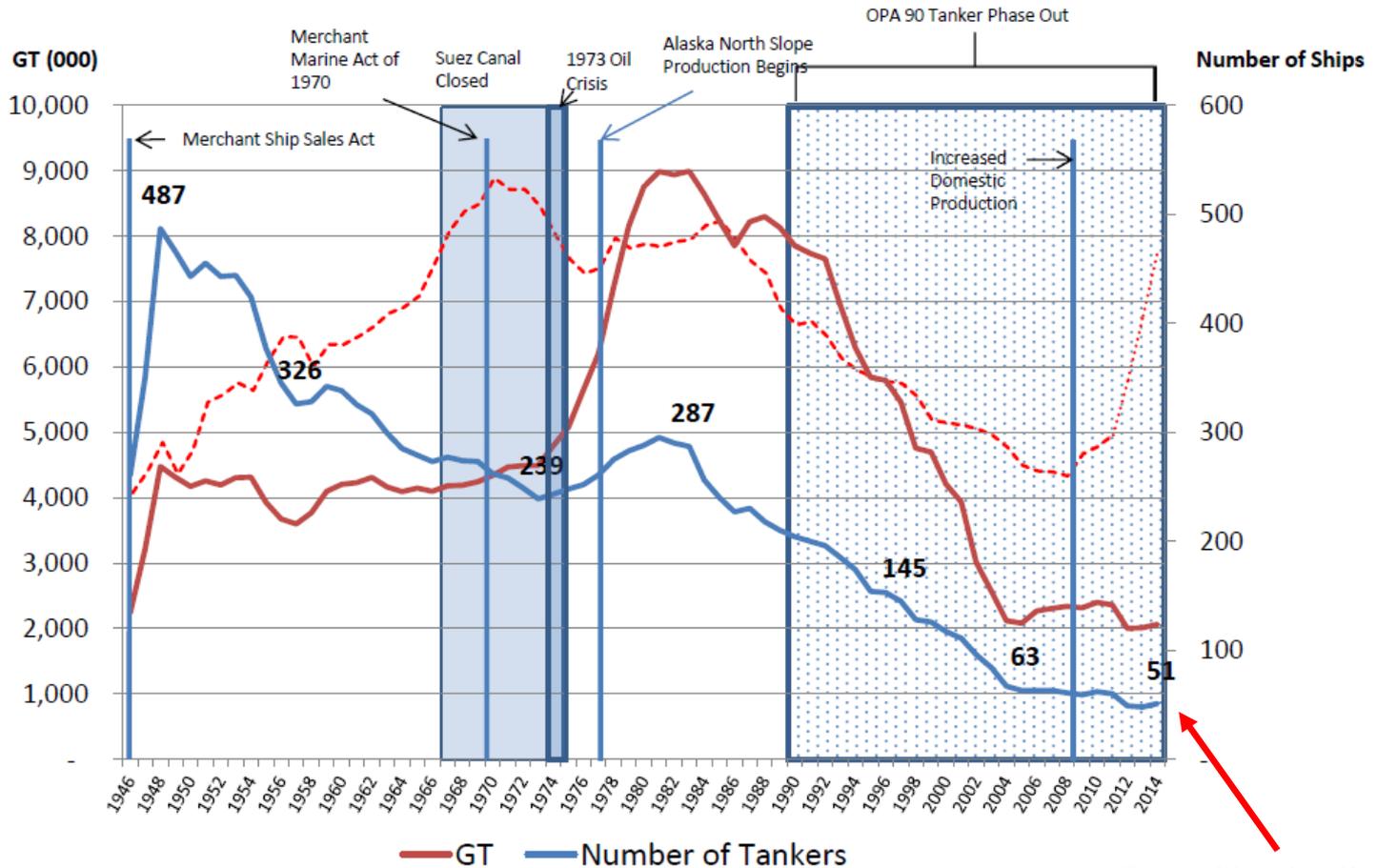


Source: Karatzas Marine Advisors & Co.





U.S.-Flag Privately-Owned Tanker Fleet 1946-2014*



Steadily declining since late 1940s.

* Ocean-Going, Self-Propelled, Tankers over 1,000 GT.

** For reference only, not on scale.

Source: U.S. Department of Energy





Fewer Assets Along West Coast

JONES ACT VESSELS – LARGER (NON-ALASKAN) VESSELS DEPLOYED IN PETROLEUM SERVICE

Excludes 11 Alaska crude tankers

Kbbbl (1)(2)	U.S. Gulf - Clean	U.S. Gulf - Chemicals	U.S. Gulf - Crude Oil	West Coast (3)	MSC (4)	Total
Tankers	2,905	623	4,698	2,356	660	11,242
ATBs	3,708	1,008	2,699	1,365	0	8,780
Tankers & ATBs	6,613	1,631	7,397	3,721	660	20,022
% of Capacity	33%	8%	37%	19%	3%	100%

# Vessels (1)(2)	U.S. Gulf - Clean	U.S. Gulf - Chemicals	U.S. Gulf - Crude Oil	West Coast (3)	MSC (4)	Total
Tankers	9	2	13	7	2	33
ATBs	16	6	13	8	0	43
Tankers & ATBs	25	8	26	15	2	76
% of Number	33%	10%	34%	20%	3%	100%

- 1 – Source: Navigistics Consulting, <http://www.navigistics.com/>
- 2 – Does not include the 350+ kbbbl Alaskan tanker fleet, nor does it include tank barges less than 140 kbbbl.
- 3 – Primarily clean product service; some dirty product and crude
- 4 – Military Sealift Command

Turner, Mason & Company
CONSULTING ENGINEERS

Majority of larger product tankers operating outside of the West Coast.





Additional Tankers On Order

Jones Act Vessel Orderbook December 2014

>150 kbbl tank barge

Shipyards	Owner	Type	Options	Capacity, k bbls	Delivery													
					2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018		
Gunderson	Kirby I Corp	ATB		185														
Gunderson	Kirby II Corp	ATB		185														
Gunderson	Sause Brothers	Deck		438'x105'x25'														
Gunderson	Dutra	Passenger Ferry Float		135'x42'x6'														
NASSCO	Kinder Morgan	Tanker		330														
NASSCO	Kinder Morgan	Tanker		330														
NASSCO	Kinder Morgan	Tanker		330														
NASSCO	Kinder Morgan	Tanker		330														
NASSCO	Kinder Morgan	Tanker		330														
NASSCO	Tote	Container		3,100 TEU														
NASSCO	Tote	Container		3,100 TEU														
NASSCO	SEACOR	Tanker		330														
NASSCO	SEACOR	Tanker		330														
NASSCO	SEACOR	Tanker		330														
VT Halter	Crowley	Container		2,400 TEU														
VT Halter	Crowley	Container		2,400 TEU														
VT Halter	Bouchard I	ATB		250														
VT Halter	Bouchard II	ATB	1	250														
Aker	Crowley	Tanker		330														
Aker	Crowley	Tanker		330														
Aker	Crowley	Tanker		330														
Aker	Crowley	Tanker		330														
Aker	Matson	Container		3,400 TEU														
Aker	Matson	Container		3,400 TEU														
Aker	Philly Tankers	Tanker	1	330														
Aker	Philly Tankers	Tanker	1	330														
Dorjon	SEACOR	ATB	1	185														
Fincantieri	Kirby I	ATB		155														
Fincantieri	Kirby II	ATB	1	155														
Fincantieri	Moran	ATB		150														
Fincantieri	Moran	ATB	1	150														

Total Orderbook

6

23

*Orderbook as % of existing fleet

34%

*excluding options

Total product tanker fleet could see some growth, absent additional retirements.





Jones Act Waivers - Examples

- Weather related events most recent examples of Jones Act waivers being issued; primarily US Gulf and Atlantic Coasts
 - Hurricane Katrina and Rita (2005); Hurricane Sandy (2012)
 - During Katrina, DHS issued 18-day waiver for crude/product movements from SPR
 - During Rita, DHS issued similar 30-day waiver
 - Significant resistance from shipping industry in both cases
 - During Sandy, DHS granted 12-day waiver for product movements from USGC to NE
 - During Sandy, shipping industry did not object to short-term waiver due to political optics
- West Coast supply shortages have not been the subject of Jones Act Waivers – Notwithstanding significant product shortages/price impacts in several instances

Source: Turner, Mason & Company.





Jones Act Waiver

- Why pursue a Jones Act waiver?
- Catastrophic earthquake and anticipated subsequent regional fuel supply shortage
 - Want to maximize ability to bring in supply from outside the area
- In conjunction with fuel specification waivers
 - Closest marine source of fuel would be refineries in Washington state
 - Foreign flagged vessels may also be in transit with an export cargo that could be diverted to California
 - One cargo of 300,000 barrels is roughly 30 percent of California's average daily gasoline demand
- But how does this process work?





Jones Act Waiver Process



- U.S. Customs & Border Protection (US CBP) manages the process for waivers (issuing agency)
- US CBP receives requests and corresponds most rapidly via Phone #202-325-0030 (non-emergency)
- Secretary of Homeland Security (SECDHS) is the sole approving authority for waivers – there are two paths
- 46 USC 501.A
 - If Secretary of Defense (SECDEF) requests waiver then SECDHS approval is immediate
- The only legal basis for waiver is national defense; Commissioner of Customs has delegated authority for these approvals





Jones Act Waiver Process

- 46 USC 501.B
 - If the request is from other than SECDEF, then waiver can still be issued if signed by SECDHS.
 - US CBP's enforcement and administration of the Jones Act requires coordination with other interested agencies
 - USCG determines vessel eligibility for coastwise endorsement and issues certificates of documentation
 - U.S. Department of Transportation's Maritime Administration (MARAD) monitors and assesses the operating status of U.S.-flag vessels, and advises US CBP on such U.S. vessel availability
 - *U.S. Department of Energy (DOE) monitors energy supply needs and advises US CBP during periods of actual or imminent shortages of energy on requests for waivers of the Jones Act*
 - U.S. Department of Defense (DOD) ascertains the impact of certain energy supply situations on its operations, and whether a waiver request is in the interest of national defense





Jones Act Waiver Process

- Congressional involvement is required (within 48 hours of notification of request and waiver transactions)
 - House Armed Services Committee
 - House Transportation and Infrastructure Committee
 - Senate Committee on Commerce, Science, and Transportation
 - Senate Armed Services Committee
- Waiver Letters require full description of:
 - Reason necessary, ports involved & time period
 - Why MARAD's recommendations are not feasible
- Law was changed in January 2013 (PL138) to increase process transparency
 - Inform SECTRANS, and Publish the final determination
- Waivers are exceptionally rare





Questions?



Source: Marine Log – photo of Magnolia State, May 2016.

gordon.schremp@energy.ca.gov

916-654-4887

