

Bond Case Briefs

Municipal Finance Law Since 1971

PUBLIC UTILITIES - CALIFORNIA

State Lands Commission v. Plains Pipeline, L.P.

Court of Appeal, Second District, Division 6, California - November 19, 2020 - Cal.Rptr.3d - 2020 WL 6791510 - 20 Cal. Daily Op. Serv. 11,871 - 2020 Daily Journal D.A.R. 12,329

California State Lands Commission and insurer brought action against owner of ruptured pipeline, claiming that when owner's negligent maintenance of pipeline resulted in disrupting the flow of oil, it also disrupted the payment of royalty income to the Commission, and caused damage to improvements on the Commission's land.

The Superior Court sustained pipeline owner's demurrer without leave to amend, and Commission and insurer appealed.

The Court of Appeal held that:

- Even assuming it was a public utility, oil pipeline owner was not entitled to immunity from liability for its negligence which resulted in pipeline rupture;
- Commission sufficiently alleged damage to property to preclude application of economic loss rule; and
- Special relationship existed which allowed Commission to recover purely economic damages.

Even assuming it was a public utility, oil pipeline owner was not entitled to immunity from liability for its negligence which resulted in pipeline rupture; pipeline owner did not deliver essential municipal services to members of the general public, but rather its task was to transport oil to a private entity for commercial purposes, and its rates were set by Federal Energy Regulatory Commission (FERC) and did not include compensation for liability.

California State Lands Commission sufficiently alleged damage to property to preclude application of economic loss rule to negligence claim against owner of oil pipeline which ruptured and leaked oil, where Commission alleged that it had succeeded to oil and gas well owner's property such that the damage from the inability to transport oil continued, and it was required to spend substantial amounts for repairs and maintenance to keep the oil and gas well property in a safe condition.

Special relationship existed between California State Lands Commission and owner of ruptured oil pipeline which allowed Commission to recover purely economic damages stemming from owner's negligent maintenance of the pipeline; purpose of the pipeline was to transport oil taken from the Commission's land so that the Commission, among others, could make a profit, it was entirely foreseeable that Commission would lose royalties if the pipeline failed, there was a high degree of certainty that Commission was injured, there was an immediate and direct connection between owner's conduct and the Commission's injury, owner's conduct was both negligent and criminal, and damages would encourage pipeline operators to avoid future harm, including immense environmental damage caused by oil spills.

