

1 [Settlement of complaint by PG&E before the Federal Energy Regulatory Commission and
2 approval of an Amended Interconnection Agreement with PG&E.]

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4 **Ordinance authorizing settlement of proceedings before the Federal Energy Regulatory**
5 **Commission in FERC Dockets No. ER05-1190-000, et al, initiated by Pacific Gas &**
6 **Electric Company to terminate the 1987 Interconnection Agreement between the City**
7 **and PG&E; and approving an Amended Interconnection Agreement between the City**
8 **and PG&E which provides for continued delivery of electricity to City facilities, among**
9 **other things.**

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11 Be it ordained by the People of the City and County of San Francisco:

12 Section 1. The City Attorney and the General Manager of the San Francisco Public
13 Utilities Commission (PUC) are hereby authorized to settle the proceedings before the
14 Federal Energy Regulatory Commission (FERC) in Docket No. ER05-1190-000, initiated by
15 Pacific Gas & Electric Company on July 1, 2005, to effectively terminate the 1987
16 Interconnection Agreement (IA) between PG&E and the City. The Board of Supervisors
17 hereby approves the Amended Interconnection Agreement (Amended IA) between the City
18 and PG&E as a part of the settlement. The Amended IA is on file with the Clerk of the Board
19 of Supervisors in File No. _____, and is declared to be a part of this ordinance as if fully set
20 forth herein. The PUC approved the Amended IA on July 24, 2007, and recommends its
21 approval to the Board of Supervisors. The PUC resolution is on file with the Clerk of the
22 Board of Supervisors in File No. _____, and is declared to be a part of this ordinance as if fully
23 set forth herein. If approved by the Board of Supervisors, the Settlement and Amended IA will
24 be submitted to FERC for approval. If the Board of Supervisors and FERC approve the

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City Attorney
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1 proposed amendments, the Amended IA will replace the 1987 IA between the City and PG&E,
2 which was executed on December 21, 1987 and is on file with FERC as PG&E Rate Schedule
3 FERC No. 114.

4 Section 2. Background to the Settlement.

5 A. On July 1, 2005, PG&E filed a complaint under Section 205 of the Federal
6 Power Act to effectively terminate the FERC-approved 1987 IA between PG&E and the City.
7 PG&E sought by its filing to terminate the IA ten years prior to its expiration date.

8 B. On July 22, 2005, the City intervened, protested and asked FERC to reject
9 PG&E's filing.

10 C. On September 1, 2005, the FERC Administrative Law Judge established an
11 expedited schedule for completion of discovery, evidentiary hearings and briefing. In
12 preparation for hearings, the City retained special counsel and expert witnesses, conducted
13 extensive discovery, including depositions of PG&E witnesses, and submitted written
14 testimony in opposition to PG&E's proposal on September 16, 2005.

15 D. On October 7, 2005, the City and PG&E agreed to Settlement Principles and
16 requested a six-month stay of the proceeding to give the parties an opportunity to reach a
17 negotiated settlement.

18 E. On October 12, 2005, FERC granted a six-month stay and agreed to extend the
19 earliest possible effective date of any amendments to the IA to September 1, 2007.

20 F. In June 2006, the City and PG&E agreed to a Term Sheet setting forth the
21 agreements reached on key issues and identifying additional steps to a final agreement.

22 G. In December 2006, April 2007, and July 2007, FERC issued additional orders
23 further staying the proceedings in order to give the City and PG&E an opportunity to conclude
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1 settlement negotiations. FERC has stayed the proceedings until October 9, 2007 in order for
2 the City to complete its approval process.

3 Section 3. The Amended IA. The amendments to the IA will result in annual savings to
4 the City of \$3.772 million. The proposed amendments (i) incorporate into the IA modifications
5 required to conform to the changes in the California electricity market since the establishment
6 of the California Independent System Operator, (ii) provide the City with greater access to
7 energy from third parties and greater flexibility in its operations, and (iii) anticipate further
8 changes in the California electricity market which are expected in early 2008. The key
9 provisions of the Amended IA are as follows:

10 A. PG&E will continue to provide transmission and distribution services to ensure
11 the delivery of power from Hetch Hetchy to City facilities. Distribution rates are fixed until
12 January 2009. After January 2009, distribution rates may not increase more than 3 per cent
13 per year for the remaining term of the Amended IA. Transmission rates will increase by 24
14 percent on September 1, 2007, but will be 25 percent below FERC-approved PG&E
15 Transmission Owner tariff rates even after the increase. After September 1, 2007,
16 transmission rates will not increase more than 8 per cent per year for the remaining term of
17 the Amended IA.

18 B. The City maintains its right to use the deferred delivery account to bank energy
19 produced by Hetch Hetchy, but the maximum amount of energy the City can bank is capped
20 at 110 GWh.

21 C. Demand charges to the City for withdrawals from the deferred delivery account
22 are eliminated.

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1 D. City renewable energy facilities that are within 20 miles of the City's customers
2 are recognized as generating resources that are eligible to use IA transmission and
3 distribution services.

4 E. As provided in the Scheduling Coordinator (SC) Settlement, which was
5 approved by the San Francisco Board of Supervisors on June 21, 2005, and incorporated into
6 the Amended IA, the City is responsible for scheduling its own power, thereby eliminating the
7 City's reliance on PG&E to provide scheduling functions with CAISO and enabling the City for
8 the first time to directly engage in CAISO market transactions.

9 F. Neither the City nor PG&E may make unilateral filings with FERC to change the
10 terms of the Amended IA unless there has been a significant regulatory change, such as a
11 change in regulatory structure or requirements ordered by FERC, CPUC or other regulatory
12 body.

13 G. The arbitration provisions are amended and an alternative dispute resolution
14 process is adopted which requires the participation of senior management at PG&E and the
15 Assistant General Manager for Power at the PUC.

16 H. The City's standard contract provisions, including non-discrimination, equal
17 benefits requirements, prohibition against submission of false claims, prohibition on political
18 activity with City funds and limitations on political contributions are included in the Amended
19 IA.

20 I. The City's implementation of Community Choice Aggregation cannot be a basis
21 for termination of the IA.

22 J. Nothing in the proposed amendments limits the City's right to undertake full
23 municipalization.

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1 RECOMMENDED:

2 PUBLIC UTILITIES COMMISSION

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4 Susan Leal
5 General Manager

6 APPROVED AS TO FORM AND RECOMMENDED:
7 DENNIS J. HERRERA, City Attorney

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9 Theresa L. Mueller
10 Deputy City Attorney

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