CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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January 18, 2019

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 24, 2019 Budget and Finance Committee Meeting

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Item 1 **File 18-1179** *(Continued from January 17, 2019)*	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively approves a service agreement between the San Francisco Public Utilities Commission (SFPUC) and PG&E for ten years from January 1, 2019 through December 31, 2028. The resolution would also authorize the SFPUC General Manager to make amendments to the agreement, as needed, that do not materially increase the obligations or liabilities of the City.

Key Points

- State law allows cities and counties to develop Community Choice Aggregation (CCA) programs through which local governments supply electricity to participating customers within their jurisdictions while the existing private utility (PG&E in San Francisco) continues to provide various services including billing, transmission, and distribution. San Francisco's CCA program ("CleanPowerSF") is in the process of phasing in service to residential customers citywide.
- Under the service agreement, PG&E provides meter reading and billing services to CleanPowerSF customers and remits customer payments to CleanPowerSF**.** The service agreement requires each party to comply with the terms of the CCA tariffs set by the California Public Utilities Commission and includes provisions for audits, dispute resolution, events of default, indemnity, and billing CCA customers and remitting payments to CleanPowerSF. The City retains the ability to audit PG&E's records.

Fiscal Impact

- Of the $20,000,000 not-to-exceed amount for this agreement, CleanPowerSF estimates that it will pay PG&E $19,033,151 over 10 years for CCA services based on tariffs set by the California Public Utilities Commission. The remaining $966,849 represents a contingency of approximately 5 percent to cover costs if customer enrollment in CleanPowerSF is higher than estimated.
- The costs associated with PG&E services provided under the service agreement are paid from CleanPowerSF revenues.

Recommendations

- Amend the proposed resolution to correctly state that the service agreement end date is December 31, 2028.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that has a term of more than ten years or requires expenditures of $10 million or more is subject to Board of Supervisors approval.

BACKGROUND

Community Choice Aggregation

State law allows cities and counties to develop Community Choice Aggregation (CCA) programs, through which local governments supply electricity to participating customers within their jurisdictions while the existing private utility (PG&E in San Francisco) continues to provide various services including billing, transmission, and distribution. San Francisco's CCA program ("CleanPowerSF") is in the process of phasing in service to residential customers citywide.

CleanPowerSF offers two levels of supply service: (1) Green, the default service which contains at least 40 percent renewable energy; and (2) SuperGreen, a premium option which offers 100 percent renewable energy. Residential and business customers are automatically phased into the CleanPowerSF program based on their location and are given opportunities to opt-out of participating in the program.

Approximately 116,000 customer accounts with average electricity demand of about 230 megawatts (MW) are currently enrolled in CleanPowerSF. Full-scale citywide enrollment is planned to occur by April 2019 and would involve approximately 280,000 additional customers, for a total of approximately 396,000 customer accounts with average electricity demand of approximately 350 MW. The opt-out rate is 3.2 percent.

After April 2019, the only remaining accounts to be enrolled will be the largest commercial accounts which account for approximately twelve percent of citywide electricity demand.

Previous CleanPowerSF Legislation

The Board of Supervisors has previously authorized the San Francisco Public Utilities Commission (SFPUC) to enter into long-term renewable energy supply agreements for CleanPowerSF without further Board of Supervisors approval:

- In May 2015, the Board of Supervisors authorized the SFPUC General Manager to use pro forma agreements to purchase and sell renewable electricity to operate the CleanPowerSF program (File No. 15-0408; Ordinance No. 75-15);
- In December 2015, the Board of Supervisors authorized the SFPUC General Manager to enter into agreements requiring expenditures of $10 million or more for power and related products and services to launch the initial phases of CleanPowerSF (File No. 15-1123; Ordinance No. 223-15); and
- In January 2018, the Board of Supervisors authorized the SFPUC General Manager to enter into agreements for renewable energy with terms in excess of ten years or requiring expenditures of $10 million or more for power and related products and

services for citywide expansion of CleanPowerSF; and authorized deviations from contract requirements in the Administrative Code and the Environment Code (File No. 17-1172; Ordinance No. 8-18).

In addition, in September 2018, the Board of Supervisors authorized the SFPUC General Manager to enter into future agreements (executed within the next five years) requiring binding arbitration for purchase of electricity, if certain conditions were met; and retroactively authorized three agreements between CleanPowerSF and Pacific Gas & Electric Company (PG&E) for purchase of electricity-related products requiring binding arbitration (File 18-0708, Ordinance No. 227-18).

Community Choice Aggregation Service Agreement with PG&E

In 2010, SFPUC entered into a Community Choice Aggregation (CCA) service agreement with PG&E for a period of two years, commencing May 27, 2010. On May 25, 2012, SFPUC executed an amendment extending the agreement until December 31, 2018, for a total term of eight years and seven months. The agreement did not specify a dollar amount. According to Mr. Christopher Whitmore, Local Policy Analyst for SFPUC, at the time of the contract execution, it was unclear whether or when the City would be commencing services to customers under CleanPowerSF. The agreement was required for the City to be certified to operate a CCA program. CleanPowerSF did not start serving customers until May 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves a service agreement between SFPUC and PG&E for ten years from January 1, 2019 through December 31, 2028. The resolution would also authorize the SFPUC General Manager to make amendments to the agreement, as needed, that do not materially increase the obligations or liabilities of the City.

Under the service agreement, PG&E provides meter reading and billing services to CleanPowerSF customers and remits customer payments to CleanPowerSF. The service agreement requires each party to comply with the terms of the CCA tariffs,[1] and includes provisions for audits, dispute resolution, events of default, indemnity, and billing CCA customers and remitting payments to CleanPowerSF. The City retains the ability to audit PG&E's records.

Line maintenance, metering, and outage response services are not a component of this agreement. Those services are provided directly to customers by PG&E, and customers pay for those services through PG&E delivery charges on their bill.

According to Mr. Whitmore, CCA service agreements with PG&E are typically for an indefinite period of time. However, since the Charter requires the Board of Supervisors to approve contracts over ten years, the SFPUC is seeking a 10-year contract to provide stability and security to the City's CCA program.

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[1] The California Public Utilities Commission sets tariffs, or a pricing schedule that utilities offer to CCA programs for various services, such as billing. A utility must have CPUC approval before changing any of the tariffs.

FISCAL IMPACT

Of the $20,000,000 not-to-exceed amount for this agreement, CleanPowerSF estimates that it will pay PG&E $19,033,151 for CCA services over the next ten years based on tariffs set by the California Public Utilities Commission, as shown in Table 1 below. The remaining $966,849 represents a contingency of approximately 5 percent to cover costs if customer enrollment in CleanPowerSF is higher than estimated in Table 2 below.

Table 1: Agreement Amount

Billing administration and data transmission fees	$18,982,926
Customer enrollment	13,425
Annual reports	36,800
Subtotal	$19,033,151
Contingency (5%)	966,849
Total	**$20,000,000**

CleanPowerSF expects charges of $18,982,926 over ten years for PG&E billing and administration fees under the CPUC-approved CCA tariffs, as shown in Table 2 below.[2] Although 396,000 service accounts are eligible for CleanPowerSF, the SFPUC estimates that 385,000 initial users will be active after accounting for opt-outs (between three and four percent). The total number of customers being served by CleanPowerSF is expected to increase as construction and development introduces additional electricity accounts within CleanPowerSF's service territory.

Table 1: Estimated Billing Administration and Data Transmission Fees

	Per Meter Fee*	Number of Meters**	Annual Cost
Year 1	$0.35000	385,000	$1,617,000
Year 2	$0.36050	386,925	1,673,837
Year 3	$0.37132	388,860	1,732,698
Year 4	$0.38246	390,804	1,793,603
Year 5	$0.39393	392,758	1,856,630
Year 6	$0.40575	394,722	1,921,901
Year 7	$0.41792	396,696	1,989,446
Year 8	$0.43046	398,679	2,059,384
Year 9	$0.44337	400,672	2,131,751
Year 10	$0.45667	402,675	2,206,675
Total			**$18,982,926**

*Assumes a 3.0 percent annual escalation
**Assumes a 0.5 percent annual escalation as new buildings are constructed

The costs associated with PG&E services provided under the service agreement are paid from CleanPowerSF revenues. These costs are included in the approved CleanPowerSF budget.

[2] For example see CPUC-approved Electric Rule 23 at: https://www.pge.com/tariffs/tm2/pdf/ELEC_RULES_23.pdf and Electric Rule E-CCA Services to Community Choice Aggregators at: https://www.pge.com/tariffs/tm2/pdf/ELEC_SCHEDS_E-CCA.pdf

CleanPowerSF expects to incur costs for monthly billing administration, data transmission, customer data reports, and customer enrollment. The Board of Supervisors approved the CleanPowerSF budget of $157 million for FY2018-19 and $212.9 million for FY 2019-20.

POLICY CONSIDERATION

Retroactive Approval

The proposed resolution would retroactively approve a service agreement from January 1, 2019 through December 31, 2028. According to Mr. Whitmore, the SFPUC initially believed that the agreement did not need Board of Supervisors approval as it was a new agreement, not an extension of the existing agreement, and the City was required to pay the CCA services charges through a separate tariff approved by the California Public Utilities Commission. After discussion with the City Attorney's Office, SFPUC determined that the agreement is subject to Board approval due to the anticipated costs to be incurred under the CPUC tariff exceeding $10 million. Additionally, the new agreement extends the terms and conditions of the previous agreement which was entered in 2010 so that the total term would exceed ten years. This determination was made at a point in time that did not provide SFPUC with sufficient time to have the Board approve the agreement before the end of the year.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the service agreement end date is December 31, 2028.
2. Approve the proposed resolution as amended.

Item 2 **File 19-0012**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an emergency declaration of the San Francisco Public Utilities Commission (SFPUC) to repair the Oceanside Treatment Plant ventilation ducts, with a total estimated cost not to exceed $3,000,000.

Key Points

- On November 3, 2018, a collapsed section of ventilation ducting was found at the Oceanside Treatment Plant, causing safety risks to the plant's staff. The SFPUC General Manager declared an emergency on November 8, 2018.
- SFPUC selected Monterey Mechanical, Inc. to conduct the repairs to the collapsed section of ventilation, and other work. SFPUC solicited quotes from two qualified HVAC contractors that have been actively working at the Oceanside Treatment Plant site. Monterey Mechanical was determined to be technically qualified and presented the lowest price for the work. SFPUC originally selected Monterey Mechanical to work on digester gas utilization upgrades at the Oceanside Treatment Plant in 2018 through a competitive bid process.
- The $3 million budget includes work on the ventilation ducting/supply duct system in addition to the collapsed section. According to SFPUC staff, SFPUC added this work to the emergency work because visual condition assessments determined that other parts of the supply duct system remained vulnerable to potential collapse, and separating the duct replacement from the rest of the work would not address the potential safety hazards or be more cost effective.

Fiscal Impact

- The cost to complete the work authorized by the proposed authorization is not expected to exceed $3,000,000. The Controller has certified that sufficient funding is available in the SFPUC Wastewater Enterprise FY 2018-19 capital budget.

Policy Consideration

- According to SFPUC staff, SFPUC Wastewater Enterprise has procedures in place to address and prevent potential future emergency declarations. The Wastewater Enterprise operating budget provides for staff to perform routine system inspections and repairs using in-house resources, and the Wastewater Enterprise renewal and replacement budget includes funds for facility repairs using low-bid contractor services. The Wastewater Enterprise capital improvement program also has a project – Oceanside Condition Assessment Repairs – to prioritize and implement repair and replacement of deficient systems at the Oceanside Treatment Plant.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 6.60(d) states that contracts entered into for emergency work that are more than $250,000 are subject to Board of Supervisors approval. If the emergency does not permit approval of the emergency determination by the Board of Supervisor before work begins, the Department head must submit a resolution approving the emergency determination to the Board of Supervisors within 60 days.

BACKGROUND

The San Francisco Public Utilities Commission's (SFPUC) Oceanside Treatment Plant, located on Great Highway near the San Francisco Zoo, provides wastewater collection and treatment of approximately 20 percent of the city's flows. The Oceanside Treatment Plant treats approximately 17 million gallons per day, but capacity may reach 65 million gallons per day during rain events.

On November 3, 2018, a collapsed section of ventilation ducting was found at the Oceanside Treatment Plant. The failure of the ventilation causes safety risks to staff at the plant. There is no reliable fresh air supply to this space where hazardous sewage gasses are generated. There are also other sections of the ventilation ducting created in the same time period (approximately 1993-1994) in danger of collapse. Replacement of the ventilation ducts is beyond the capabilities of SFPUC. On November 8, 2018, the SFPUC General Manager declared an emergency, which was approved by the SFPUC Commission President.

Work to repair the collapsed section of ventilation began on December 10, 2018 (see below). As noted above, Administrative Code Section 6.60(d) requires the SFPUC to submit a resolution approving the emergency declaration to the Board of Supervisors within 60 days, if the emergency does not permit approval by the Board of Supervisors before the repair work begins. SFPUC submitted the resolution approving the emergency determination to the Board of Supervisors on December 17, 2018, or 44 days after the collapsed section of ventilation ducting was found.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an emergency declaration of the SFPUC to repair the Oceanside Treatment Plant ventilation ducts, with an estimated cost not to exceed $3,000,000.

SFPUC selected Monterey Mechanical, Inc. to conduct the repairs to the collapsed section of ventilation, and other work. According to Mr. John Scarpulla, SFPUC Policy and Government Affairs, SFPUC solicited quotes from two qualified HVAC contractors that have been actively working at the Oceanside Treatment Plant site. Monterey Mechanical was determined to be technically qualified and presented the lowest price for the work. According to Mr. Scarpulla, SFPUC originally selected Monterey Mechanical to work on digester gas utilization upgrades at Oceanside Treatment Plant in 2018 through a competitive bid process.

Monterey Mechanical began working on the repair on December 10, 2018 and the targeted completion date is April 19, 2019. The scope of work includes demolition and removal of collapsed duct sections, replacement of the ducts and ancillary components, inspection of similar ventilation system equipment, recommendations for repairs or retrofits of the supports, and completion of the retrofit of new supports. According to Mr. Scarpulla, SFPUC contracted with Monterey Mechanical to perform work of the supply duct system in addition to the collapsed section because visual condition assessments determined that other parts of the supply duct system remained vulnerable to potential collapse, and separating the duct replacement from the rest of the work would not address the potential safety hazards of the supply duct system and would not be more cost effective.

FISCAL IMPACT

The total cost to complete the work authorized by the proposed resolution is not expected to exceed $3,000,000. According to Mr. Scarpulla, SFPUC technical engineering staff reviewed both quotes and found Monterey Mechanical's proposal to be reasonable. The Controller has certified that sufficient funding is available in the SFPUC Wastewater Enterprise FY 2018-19 capital budget. The breakdown of the project budget is shown in Table 1 below.

Table 1: Project Budget

Item Description	Cost
Mobilization	$30,000
Demobilization	10,000
Building 011: Odor Control Unit tank 8 survey and repairs	43,000
Building 042: Temporary air supply, scaffolding, and related work	195,000
Building 042: HVAC, Electrical and Instrumentation & Control – Selective demolition	121,000
Building 042: HVAC Work	1,814,000
Building 042: Start-up, air-balancing, and commissioning	30,000
Building 042: Electrical work	150,000
Building 042: Instrumentation and control work	20,000
Building 530: Anchorage, support, and HVAC work	200,000
Building 530: Electrical work	20,000
Building 530: Instrumentation and control work	10,000
Contingency allowance for sampling, testing, demolition, removal, handling, transportation, and disposal of unforeseen hazardous materials	10,000
Cash allowance for additional supplies and equipment for city representative's field office	5,000
Cash allowance for Distributed Control System integration	7,000
Contingency allowance dispute resolution advisor and/or partnering	15,000
Contingency allowance for mechanical, HVAC, and electrical interface replacement and rehabilitation work	20,000
Total Cost	**$2,700,000**

According to Mr. Brian Carlomagno, SFPUC Project Manager, an additional $300,000 is requested as a construction contingency, which is consistent with SFPUC budgeting practices.

POLICY CONSIDERATION

According to Mr. Scarpulla, SFPUC Wastewater Enterprise has procedures in place to address and prevent potential future emergency declarations. The Wastewater Enterprise operating budget provides for staff to perform routine system inspections and repairs using in-house resources, and the Wastewater Enterprise renewal and replacement budget includes funds for facility repairs using low-bid contractor services. The Wastewater Enterprise capital improvement program also has a project – Oceanside Condition Assessment Repairs – to prioritize and implement repair and replacement of deficient systems at the Oceanside Treatment Plant.

RECOMMENDATION

Approve the proposed resolution.

Item 3 **File 19-0013**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively approves an agreement between the San Francisco Public Utilities Commission (SFPUC) and Southern California Edison Company (SCE) for one year from January 1, 2019 through December 31, 2019 for the purchase of renewable energy for CleanPowerSF in an amount not to exceed $24,000,000.

Key Points

- CleanPowerSF provides renewable energy to residential and commercial customers in San Francisco. CleanPowerSF estimates enrollment of approximately 396,000 customer accounts by April 2019 with average electricity demand of approximately 350 MW.
- In order to meet the 45 percent of renewable energy standard for CleanPowerSF customers on the "Green" plan, CleanPowerSF entered into an agreement through a Request for Offers process for SCE to supply energy to CleanPowerSF. Under the agreement, SCE agrees to provide a firm amount of renewable energy, 300,000 megawatt hours, to be delivered by December 31, 2019.
- CleanPowerSF will enter into an agreement with SCE for additional energy supplies in 2020 in the amount of $3,500,000, which is not subject to approval by the Board of Supervisors.

Fiscal Impact

- CleanPowerSF estimates energy purchases of $19 million under the proposed agreement in calendar year 2019. Because customer demand and market prices vary, CleanPowerSF estimated purchases under this agreement between $19,000,000 and $24,000,000 to account for the possibility that energy prices could remain high during CY 2019. Power purchases are paid by CleanPowerSF revenues.

Recommendation

- Amend the proposed resolution to request that SFPUC staff return to the Budget & Finance Committee to present the FY 2017-18 annual report on the CleanPowerSF program once it is completed.
- Approve proposed resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that has a term of more than ten years or requires expenditures of $10 million or more is subject to Board of Supervisors approval.

BACKGROUND

Community Choice Aggregation

State law allows cities and counties to develop Community Choice Aggregation (CCA) programs, through which local governments supply electricity to participating customers within their jurisdictions while the existing private utility (Pacific Gas & Electric Company- PG&E- in San Francisco) continues to provide various services including billing, transmission, and distribution. San Francisco's CCA program ("CleanPowerSF") is in the process of phasing in service to residential customers citywide.

CleanPowerSF offers two levels of supply service: (1) Green, the default service which contains at least 40 percent renewable energy and (2) SuperGreen, a premium option which offers 100 percent renewable energy. Residential and business customers are automatically phased into the CleanPowerSF program based on their location and are given opportunities to opt-out of participating in the program. The contract with Southern California Edison Company (SCE) provides the renewable energy content for purchasers in the "Green" category.

Approximately 116,000 customer accounts with average electricity demand of about 230 megawatts (MW) are currently enrolled in CleanPowerSF. Full-scale citywide enrollment is planned to occur by April 2019 and would involve approximately 280,000 additional customers, for a total of approximately 396,000 customer accounts with average electricity demand of approximately 350 MW. The opt-out rate is 3.2 percent.

After April 2019, the only remaining accounts to be enrolled will be the largest commercial accounts, which are responsible for approximately 12 percent of citywide electricity demand.

Previous CleanPowerSF Legislation

The Board of Supervisors has previously authorized the San Francisco Public Utilities Commission (SFPUC) to enter into long-term renewable energy supply agreements for CleanPowerSF without further Board of Supervisors approval:

- In May 2015, the Board of Supervisors authorized the SFPUC General Manager to use pro forma agreements to purchase and sell renewable electricity to operate the CleanPowerSF program (File No. 15-0408; Ordinance No. 75-15);
- In December 2015, the Board of Supervisors authorized the SFPUC General Manager to enter into agreements requiring expenditures of $10 million or more for power and related products and services to launch the initial phases of CleanPowerSF (File No. 15-1123; Ordinance No. 223-15); and,

- In January 2018, the Board of Supervisors authorized the SFPUC General Manager to enter into agreements for renewable energy with terms in excess of ten years or requiring expenditures of $10 million or more for power and related products and services for citywide expansion of CleanPowerSF; and authorized deviations from contract requirements in the Administrative Code and the Environment Code (File No. 17-1172; Ordinance No. 8-18).

In addition, in September 2018, the Board of Supervisors authorized the SFPUC General Manager to enter into future agreements (executed within the next five years) requiring binding arbitration for purchase of electricity, if certain conditions were met; and retroactively authorized three agreements between CleanPowerSF and PG&E for purchase of electricity-related products requiring binding arbitration (File 18-0708, Ordinance No. 227-18).

CleanPowerSF Budget and Power Purchases

The CleanPowerSF budget for power purchases in FY 2018-19 is approximately $116 million, increasing to approximately $162 million in FY 2019-20 to account for an increase in customers, as shown in Table 1 below. Power purchases are paid for by CleanPowerSF sales of electricity to retail customers.

Table 1: CleanPowerSF Budget, FY 2018-19 and FY 2019-20

Revenues	**FY 2018-19**	**FY 2019-20**
Electricity Sale CCA	$156,609,754	$212,070,541
Green Revenue	*154,954,160*	*207,339,619*
SuperGreen Revenue	*1,655,593*	*4,730,921*
Other	423,000	838,768
Total Revenues	**$157,032,754**	**$212,909,309**
Expenditures		
Power For Resale	$110,565,850	$153,877,739
Power For Resale-Budget	5,528,293	7,693,887
Power-Scheduling Coordinator	3,000,000	3,000,000
Subtotal Operating Expenditures	$119,094,143	$164,571,626
Reserves	16,975,360	22,505,510
Transfers Out	20,963,251	25,832,173
Total Expenditures	**$157,032,754**	**$212,909,309**

Source: FY 2018-19 and FY 2019-20 Budget

CleanPowerSF has contracts with 12 vendors to supply power in FY 2018-19 and FY 2019-20, totaling approximately $243 million in aggregate over the two fiscal years. Depending on enrollment in FY 2018-19, CleanPowerSF may choose to execute additional contracts to meet power demand. The current vendors supply power from a mix of generating sources,

providing: shaped energy,[1] renewable energy, carbon-free energy, and capacity. Table 2, below, shows the renewable energy CleanPowerSF currently has under contract for CY 2019 for the SuperGreen and Green CleanPowerSF products.

Table 2: CY 2019 CleanPowerSF - Green and SuperGreen Renewable Energy Needs and Estimated Retail Sales

Total Estimated Retail Sales (MWh)	**2,711,432**	
SuperGreen Retail Sales (Est.) (MWh)	86,994	
Green Retail Sales (Est.) (MWh)	2,624,438	
Contracted Energy		
	Volume (MWh)	**Percent (%)**
SuperGreen Renewable Energy Needs	**86,994**	**100%**
Renewable Energy Under Contract	86,994	100%
	Volume (MWh)	**Percent (%)**
Green Renewable Energy Service Needs	**1,202,021**	**45%**
Renewable Energy Under Contract	902,021	34%
Southern California Edison (SCE)	*300,000*	*11%*

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves a service agreement between SFPUC and SCE for one year from January 1, 2019 through December 31, 2019 for an amount not to exceed $24,000,000.

CleanPowerSF Contracting for Power Supply

CleanPowerSF procures energy supplies in accordance with the CleanPowerSF Supply Management Policy adopted by the Public Utilities Commission in Resolution 17-1020. In accordance with best practices in the energy industry, CleanPowerSF maintains an energy portfolio that includes a mix of short and long-term contracts (with terms ranging from 1 to 25 years) that best mitigates price, supply, and vendor risk. CleanPowerSF procures energy through requests for offers which are distributed to a list of known energy suppliers. Winning bidders are selected based on different factors including price, collateral requirements, vendor experience, and if relevant, project location. The majority of the contracts have a fixed price for the term of the contracts. Some shorter term (one to two years) contracts, such as the SCE contract, are based on a market price for energy plus a fixed price for the renewable attribute of the commodity. This is an industry-standard pricing term for renewable energy supplies.

[1] Shaped energy is also known as system energy, which is purchased from the California electrical grid and is used to reduce volatility in energy prices. Shaped energy may or may not come from renewable sources.

Agreement with Southern California Edison Company

In June 2017 and August 2018, CleanPowerSF issued requests to obtain short term renewable energy supplies from vendors, but did not receive offers that had sufficient renewable energy supplies to support the expansion of CleanPowerSF in April 2019. As a result, CleanPowerSF participated in several Requests for Offers extended by energy suppliers that would allow them to purchase bundled renewable energy. In September 2018, CleanPowerSF responded to a Request for Offers for clean energy supplies from PG&E, but were not shortlisted by PG&E for the volumes desired. Also in September 2018, CleanPowerSF submitted a bid to purchase renewable energy from SCE in order to obtain sufficient renewable energy supply to support the service expansion. CleanPowerSF's bid was awarded in October 2018.

Under the proposed agreement, SCE agrees to provide a firm amount of renewable energy, 300,000 megawatt hours, to CleanPowerSF to be delivered by December 31, 2019. SCE will bill CleanPowerSF monthly based on the amount of energy delivered in the prior month and market-based prices determined at the time of delivery.

Agreement Extension

The proposed resolution provides for Board of Supervisors approval of the agreement between CleanPowerSF and SCE for calendar year 2019 in the amount of $24,000,000. CleanPowerSF will enter into another agreement for additional energy supplies in 2020 in the amount of $3,500,000, which is not subject to Board of Supervisors approval.

Retroactive Approval

The Public Utilities Commission approved the proposed agreement between CleanPowerSF and SCE on December 11, 2019. Due to the Board of Supervisors recess in December, the resolution to approve the proposed service agreement was not introduced to the Board of Supervisors until January 15, 2019. The proposed resolution would retroactively approve the service agreement from January 1, 2019 through December 31, 2019.

FISCAL IMPACT

Of the $24,000,000 not-to-exceed amount for this agreement, CleanPowerSF estimates that they will pay SCE $19,000,000 for renewable energy delivered during calendar year 2019. CleanPowerSF will pay Southern California Edison the per-megawatt hour market rate for renewable energy, plus a fixed price to purchase the associated Renewable Energy Credit (REC) per megawatt hour of power delivered.[2] CleanPowerSF derived estimates of the cost to purchase energy under the agreement with SCE by calculating the cost to purchase 25,000 megawatt hours per month of energy using the estimated monthly cost of energy for the full calendar year, plus the cost of RECs. Because costs are dependent on the energy market,

[2] Renewable Energy Credits (RECs) are tradeable, non-energy commodities that represent proof that 1 megawatt-hour of electricity was generated from an eligible renewable energy resource and was fed into a share power system. RECs carry all renewable and environmental attributes associated with the production of electricity from the eligible renewable energy resources underlying it.

CleanPowerSF estimated purchases under this agreement between $19,000,000 and $24,000,000 to account for the possibility that energy prices could remain high during CY 2019.

All costs associated with the contract will be paid from CleanPowerSF revenues and have been approved in the FY 2018-19 and FY 2019-20 CleanPowerSF budgets.

POLICY CONSIDERATION

When the Board of Supervisors approved File 17-1172 in December 2017, the Board amended the ordinance to require SFPUC to submit annual reports to the Board of Supervisors that include annual program costs, the rates charged by the SFPUC to CleanPowerSF customers to recover costs, and a comparison of CleanPowerSF rates to PG&E rates. SFPUC staff are preparing the Fiscal Year 2017-2018 Report on the CleanPowerSF Program and anticipate submitting it to the Board of Supervisors as soon as the Fiscal Year 2017-2018 audited financial statements are available.

RECOMMENDATIONS

1. Amend the resolution to request that SFPUC staff return to the Budget & Finance Committee to present the FY 2017-18 annual report on the CleanPowerSF program once it is completed.
2. Approve proposed resolution

Item 5 **File 19-0014**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve Modification No. 1 to the lease between San Francisco International Airport (Airport) as landlord and the U.S. Federal Bureau of Investigation (FBI) as tenant, extending the term for an additional three years, with a termination option after two years, and increasing the annual rent to $615,385.

Key Points

- The Board of Supervisors previously approved a five-year lease between the Airport and the Federal Bureau of Investigation (FBI) for space in the International Terminal from 2011 to 2016 (09-1067), and a three-year lease between the Airport and the Federal Bureau of Investigation for this space in the International Terminal from 2016 to 2019 (File 15-1221).
- The proposed lease modification would extend the term by three years to 2022. The FBI would be able to terminate the lease after two years with at least 60 days notice. The early termination provision is intended to allow the FBI to relocate to the new Courtyard 3 Connector Building once construction is complete.

Fiscal Impact

- The lease modification includes fixed annual rent and operating costs over the three-year term. To account for rate escalation over the term of the lease, the Airport projects annual increases, and then calculates the net present value (NPV) of the expected escalations in order to determine a fixed rental rate. The fixed annual rental rate of $247.40 per square foot was derived from the current Category II rental rate of $233.21, from the Airport's FY 2018-19 Rates and Charges, and an eight percent annual escalation. The NPV of the fixed rent over the term of the lease, assuming a discount rate of 4.2 percent, is $247.40 per square foot per year.
- The total payments to be made by the FBI to the Airport over the three year term of the lease will be $1,846,154.

Policy Considerations

- The proposed resolution continues the practice of providing eight parking permits to the FBI free of charge, as is typical for other Federal agencies that provide critical services at the Airport. It is the understanding of Airport staff that this is a common practice at other U.S. airports. By providing the eight free permits, the Airport forgoes $10,752 annually in potential revenue it could receive if it were to charge for permits. By providing 1,459 total free permits to various Federal agencies, the Airport forgoes $1,960,896 in potential revenue per year.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

The Board of Supervisors previously approved a five-year lease between the Airport and the Federal Bureau of Investigation (FBI) for space in the International Terminal from 2011 to 2016 (09-1067), and a three-year lease between the Airport and the FBI for this space in the International Terminal from 2016 to 2019 (File 15-1221).

Airport staff and the FBI negotiated Modification No. 1 to the lease, extending the lease for an additional three years. The Airport Commission approved Modification No. 1 on November 6, 2018.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve Modification No. 1 to the Airport's lease with the FBI. Modification No. 1 would extend the term of the lease for an additional three years, from January 4, 2019 through January 3, 2022. After two years, the FBI would have the option terminate the lease with at least 60 days notice. The early termination provision is intended to allow the FBI to relocate to the new Courtyard 3 Connector Building once construction is complete. Annual payments made by the FBI to the Airport would be $592,780 in rent and $22,605 in operating costs, for a total of $615,385 annually. The key provisions of Modification No. 1 are shown in Table 1 below.

Table 1: Key Provisions of Lease Modification

Lease Term	January 4, 2019 – January 3, 2022 (3 Years)
Premises	2,396 square feet of office space
Parking Spaces	8 parking spaces, free of charge
Annual Rent	$592,780 ($247.40 per square foot)
Annual Operating Costs	$22,605 ($9.43 per square foot)
Rent Adjustment	None, fixed annual rents based on negotiated escalation rates
Utilities and Services	Provided by Airport through operating costs
Early Termination	Tenant may terminate after 2 years with 60 days notice
Options to Extend	None

The lease modification includes fixed annual rent and operating costs over the three-year term. To account for rate escalation over the term of the lease, the Airport projects annual increases, and then calculates the net present value (NPV) of the expected escalations in order to determine a fixed rental rate.

The fixed annual rental rate of $247.40 per square foot was derived from the current Category II rental rate of $233.21, from the Airport's FY 2018-19 Rates and Charges, and an eight percent

annual escalation. The NPV of the fixed rent over the term of the lease, assuming a discount rate of 4.2 percent, is $247.40 per square foot per year.

The same methodology was used to determine the operating costs. The annual base year operating costs are $9.15 per square foot, based on projections from the Airport's facilities staff. Airport staff projects a five percent inflation escalation for operating costs over the term of the lease. The NPV calculation for the fixed operating charge is $9.43 per square foot per year.

The calculations for both rental rate and operating costs are shown in Table 2 below.

Table 2: Rental Rate and Operating Cost Calculation

Rent Component	Rent per Square Foot per Year	Square Feet	Annual Rent
Category II Office Rent	$247.40	2,396	$592,780
Operating Cost	9.43	2,396	22,605
Total	**$256.83**	**2,396**	**$615,385**

FISCAL IMPACT

The total payments to be made by the FBI to the Airport over the three year term of the lease will be $1,846,154, including $1,778,340 in rent and $67,814 in operating costs, as shown in Table 3 below.

Table 3: Total Payments from FBI to Airport

Year	Annual Rent	Operating Costs	Annual Payment
1	$592,780	$22,605	$615,385
2	592,780	22,605	615,385
3	592,780	22,605	615,385
Total	**$1,778,340**	**$67,814**	**$1,846,154**

POLICY CONSIDERATIONS

Retroactive Approval

The existing lease between the Airport and the FBI expired on January 4, 2019. Although the Airport Commission approved the lease modification in November 2018, the Airport did not submit the resolution approving the lease modification to the Board of Supervisors until December 14, 2018, which was not sufficient time to obtain Board of Supervisors approval prior to the expiration of the existing lease. According to Ms. Artz, the delay in submitting the lease modification to the Board of Supervisors for approval was due to delays in finalizing the form of the lease amendment with the federal General Services Agency and an administrative delay at the Airport.

Parking

The proposed resolution continues the practice of providing eight parking permits to the FBI free of charge, which is typical for Federal agencies which provide critical services at the Airport. According to Ms. Artz, to her understanding, this is a common practice at other U.S. airports.

The Airport's FY 2018-19 Rates and Charges state that employee parking permits in the Domestic and International Terminal Garages cost $112 per month. If the Airport were to charge the FBI the full rate for each permit, it would receive an additional $10,752 per year, or $32,256 over the course of the three-year term of the lease extension. According to Ms. Artz, the Airport provides a total of 1,459 free parking permits to Federal agencies, including eight allocated to the FBI. This practice of providing parking permits to Federal agencies free of charge represents an opportunity cost of $163,408 per month, or $1,960,896 per year, to the Airport.

RECOMMENDATION

Approve the proposed resolution.

Items 7, 8 and 9 Files 19-0019, 19-0022 & 19-0023	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve retail concession leases between San Francisco International Airport (Airport) as landlord and the following tenants: (i) L'Occitane Airport Venture, LLC (File 19-0019); (ii) Skyline Concessions, Inc. (File 19-0022); (iii) RAKH, Inc. (File 19-0023); (iv) The Marshall Retail Group, LLC (File 19-0021); and, (v) Paradies Lagardere @ SFO 2018, LLC (File 19-0024).

Key Points

- The five retail concession tenants were selected in response to a Request for Proposals (RFP) for retail concession leases in Terminal 1, including: (i) a newsstand; (ii) a bath and beauty store; (iii) a newsstand and convenience store; (iv) a sunglass store; and, (v) a newsstand. The proposed newsstand lease with Skyline Concessions was designated as a Small Business Set-Aside. According to Airport staff, the set-aside is in order to encourage small business participation within the retail program, which has much less small business participation at the Airport than the food and beverage program.
- Each of the five concession tenants pays rent equal to the greater of the minimum annual guarantee (MAG) or percentage rent. The Marshall Retail Group lease for a newsstand and convenience shop in Terminal 1 is for 10 years. The other four retail concession leases are for an initial term of seven years with two (2) one-year options to extend, totaling nine years.
- Terminal 1 is currently undergoing a significant renovation project, and the renovated terminal will be opened in phases. Two concessions (Skyline Concessions and Paradies Lagardere) are expected to open in the Phase 1 opening on July 23, 2019 and two others (L'Occitane and RAKH) are expected to open with the Phase 2 opening on March 24, 2020. The Marshall Retail Group lease is expected to open in 2022. The retail concession tenants will pay 50 percent of MAG rent between the date that their concession opens for business and the full opening of Terminal 1, expected in May 2021.

Fiscal Impact

- The MAG paid to the Airport by the five concession tenants over the initial terms of the leases is at least $11,720,625. If the Airport chooses to exercise the options to extend for an additional two years, it would receive at least $2,362,000 in additional MAG rent, for a grand total of $14,082,625

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In December 2017, the San Francisco International Airport (Airport) Commission authorized Airport staff to issue a Request for Proposals (RFP) for seven retail concession leases in Terminal 1, including the following five leases:[1]

Lease 2: Newsstand
Lease 4: Bath and Beauty Store
Lease 5: Newsstand and Convenience Store
Lease 6: Sunglass Store
Lease 7: Newsstand

After issuing the RFP and conducting an informational meeting, Airport staff gathered feedback and made changes to some of the business terms. On March 20, 2018, the Airport Commission authorized staff to accept proposals. On May 2, 2018, the Airport received 13 proposals that met the minimum qualifications for the five leases. A four-member panel reviewed the proposals and scored them as shown in Table 1 below.

Table 1: Proposals and Scores for Terminal 1 Retail Concession Lease RFP

Proposer	Concept Name	Score
Lease 2: Newsstand (File 19-0024)		
Paradies Lagardere @ SFO 2018, LLC	Mills Cargo	87.96
The Marshall Retail Group, LLC	The Well	81.96
HG SFO Retailers 2018 JV	Ghiradelli Square	78.00
Pacific Gateway Concessions, LLC	New Stand	74.95
Lease 4: Bath and Beauty (File 19-0019)		
L'Occitane Airport Venture, LLC	L'Occitane	91.25
Lease 5: Newsstand and Convenience (File 19-0021)		
The Marshall Retail Group, LLC	Departures / 7X7	88.98
Paradies Lagardere @ SFO 2018, LLC	Mills Cargo / 7-11	80.49
HG SFO Retailers 2018 JV	Bay Market / Hudson	78.00
Pacific Gateway Concessions, LLC	New Stand / Where Traveler Marketplace Café	75.81

[1] The Airport Commission also authorized RFPs for Lease 1 (Electronics Store) and Lease 3 (Specialty Retail). The Airport Commission has approved Lease 1, which is pending Board of Supervisors approval. Lease 3 originally received no proposals, and the Airport Commission authorized a new RFP in June 2018. A proposer was selected in December 2018 and the lease is pending Airport Commission approval.

Lease 6: Sunglasses (File 19-0023)		
RAKH, Inc.	NYS Collection	81.25
FaceTime	RDG Concessions, LLC	74.00
Air Sun JV	Sunglass Hut	57.25
Lease 7: Newsstand, a Small Business Set-Aside (File 19-0022)		
Skyline Concessions, Inc.	Skyline News and Gifts	72.00

The following were determined to be the highest scoring responsive and responsible proposers: (1) L'Occitane Airport Venture, LLC; (2) Skyline Concessions, Inc.; (3) RAKH, Inc.; (4) Paradies Lagardere @ SFO 2018, LLC ; and, (5) The Marshall Retail Group, LLC. On July 10, 2018, the Airport Commission approved the leases.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve leases for retail concessions in Terminal 1 between the Airport as landlord and the following concession tenants:

(1) L'Occitane Airport Venture, LLC (File 19-0019) for a bath and beauty shop;

(2) Skyline Concessions, Inc. (File 19-0022) for a newsstand;

(3) RAKH, Inc. (File 19-0023) for sunglasses concession;

(4) Paradies Lagardere @ SFO 2018, LLC (File 19-0024) for a newsstand; and,

(5) The Marshall Retail Group, LLC (File 19-0021) for a newsstand and convenience store.

The proposed lease with Skyline Concessions was designated as a Small Business Set-Aside. According to Ms. Clarissa Mamaril, Airport Principal Property Manager, this was done in order to encourage small business participation within the retail program, which has much less small business participation at the Airport than the food and beverage program. Proposers for the lease were required to have average annual receipts below $7.5 million.

Each tenant would pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. The key provisions of the leases are shown in Table 2 below.

Table 2: Key provisions of Proposed Leases

Tenant	L'Occitane (File 19-0019)	Marshall Retail (File 19-0021)	Skyline Concessions (File 19-0022)	RAKH (File 19-0023)	Paradies Lagardere (19-0024)
Term [a]	7 years	10 years	7 years	7 years	7 years
Options to Extend	2 one-year options	None	2 one-year options	2 one-year options	2 one-year options
Square Footage	494 square feet	1,683 sq. ft. (2 sites)	595 square feet	310 square feet	1,459 square feet
Anticipated Rent Commencement Date	March 24, 2020	November 1, 2022	July 23, 2019	March 24, 2020	July 23, 2019
Initial MAG Rent[2]	$135,000	$440,000	$220,000	$126,000	$700,000
MAG Adjustment	Annually based on Consumer Price Index (CPI)				
Percentage Rent (of Gross Revenues)	12% up to $500,000; 14% from $500,000 - $1,000,000; 16% over $1,000,000				
Minimum Investment	$700 per square foot				
Interim Rent During Construction	16% of gross revenues				
Deposit	Equal to ½ of initial MAG (subject to mid-term adjustment)				
Early Termination	Airport may terminate with 6 months written notice, if space is needed for Airport's Five-Year or Ten-Year Capital Plan				
Infrastructure Fee	$8,175 (one-time fee)				
Promotional Charge	$1 per square foot per year				
Pest Control Fee	$75 per month				

[a] The lease term begins with the rent commencement date.

Phased Opening

Terminal 1 is currently undergoing a significant renovation project, and the renovated terminal will be opened in phases. According to Ms. Mamaril, two concessions (Skyline Concessions and Paradies Lagardere) are expected to open in the Phase 1 opening on July 23, 2019 and two others (L'Occitane and RAKH) are expected to open with the Phase 2 opening on March 24, 2020.

Because Terminal 1 will not be fully open prior to completion of Phase 3 construction, according to the proposed leases for these four tenants, the MAG rent is reduced by 50 percent for the period between the earlier of the Phase 1 opening and July 23, 2019, and the

[2] The Airport sets MAG rents for retail lease sites at approximately 75 percent of projected percentage rent.

earlier of the Phase 3 opening and May 1, 2021. Skyline Concessions and Paradies Lagardere, which are scheduled to open in Phase 1, would pay 50 percent MAG rent between Phase 1 and Phase 3.[3] L'Occitane and RAKH, which are scheduled to open in Phase 2, would pay 50 percent MAG rent between Phase 2 and Phase 3.[4]

These four tenants – Skyline Concessions, Paradies Lagardere, L'Occitane, and RAKH –would pay full MAG rent beginning with the Phase 3 opening but no later than May 1, 2021. The fifth concession in this report, Marshall Retail, is expected to open after Phase 3 and would be subject to the full MAG at the time that the concession opens.

FISCAL IMPACT

Each of the five proposed leases sets the initial MAG rent for each of the concessions, which increases annually by the CPI, as shown in Table 2 above. Each of the concession tenants would pay 50 percent of the MAG from the date of the opening of the concession to the opening of Phase 3, as discussed above. The MAG paid to the Airport by the five concession tenants over the initial terms of the leases is at least $11,720,625. This includes the phased opening periods of approximately one year and nine months (for Skyline Concessions and Paradies Lagardere) and one year and one month (for L'Occitane and RAKH), in which MAG rents are reduced by 50 percent, as shown in Table 3 below. If the Airport chooses to exercise the options to extend for an additional two years, it would receive at least $2,362,000 in additional MAG rent, for a grand total of $14,082,625.

Table 3: MAG Rents Paid by Tenants

	Skyline	Paradies	L'Occitane	RAKH	Marshall	Total
Initial Lease Term						
Phases 1 to 3	1 year 9 mos.	1 year 9 mos.	1 year 1 mos.	1 year 1 mos.	N/A	
Phase 3	5 years 3 mos.	5 years 3 mos.	5 years 11 mos.	5 years 11 mos.	10 years	
Total	7 years	7 years	7 years	7 years	10 years	
MAG						
Phases 1 to 3	192,500	612,500	73,125	68,250	N/A	946,375
Phase 3	1,155,000	3,675,000	798,750	745,500	4,400,000	10,774,250
Total	**$1,347,500**	**$4,287,500**	**$871,875**	**$813,750**	**$4,400,000**	**$11,720,625**

[3] As noted above, the reduction in MAG would begin on the date of the Phase 1 opening, but no later than July 23, 2019, and would end on the Phase 3 opening but no later than May 1, 2021.

[4] According to the proposed leases with L'Occitane and RAKH, the 50 percent reduction in MAG is in effect between the earlier of the Phase 1 opening and July 23, 2019, and the earlier of the Phase 3 opening and May 1, 2021. However, L'Occitane and RAKH will pay rent equal to 16 percent of gross revenues during the construction of tenant improvements and will not begin paying MAG rent until construction is completed and the concession is open. At that time (approximately March 2020), the tenants will begin paying MAG rent, which will be reduced by 50 percent until the opening of Phase 3.

Each of the leases provides for the tenant to pay the greater of the MAG or percentage rent. According to Ms. Mamaril, the Airport expects to receive percentage rent, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolutions.