

File No. 201020

Committee Item No. 4

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date September 23, 2020

Board of Supervisors Meeting

Date _____

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- Department/Agency Cover Letter and/or Report
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- Grant Budget
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- Award Letter
- Application
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OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong

Date September 18, 2020

Completed by: Linda Wong

Date _____

September 4, 2020

Angela Calvillo
Clerk of the Board of Supervisors
1 Dr. Carlton B. Goodlett Place
City Hall, Room 244
San Francisco, CA 94102

Subject: Release of \$9.5 Million Reserve for Transmission Lines 7/8 Upgrades

Dear Madam Clerk,

I would like to request your assistance to calendar the release of \$9.5 Million on Budget and Finance Committee reserve for San Francisco Public Utilities Commission (SFPUC) Transmission Lines 7/8 Upgrades.

On January 15, 2013, the Board of Supervisors passed Ordinance 4-13, authorizing, pursuant to Charter Section 9.118(a), a System Impact Mitigation Agreement with North Star Solar, LLC, requiring North Star Solar, LLC, to pay the SFPUC the costs necessary to mitigate the impacts to the City's electric system caused by the interconnection of North Star Solar, LLC's solar project to the electric grid; authorizing similar mitigation agreements with other projects in the future; appropriating funds from these agreements to pay the costs of mitigation work; and placing various mitigation funds on reserve with the Board of Supervisors' Budget and Finance Committee reserve.

In 2019, the SFPUC completed one Mitigation Project: Warnerville Switchyard Upgrades, using both capital project funds and mitigation funds from developers set aside specifically for that project.

The SFPUC has recommended an additional Mitigation Project: Transmission Lines 7/8 Upgrades. Total costs for the project are estimated at \$38 million. The Budget and Finance Committee reserve has accumulated \$8.6 million in mitigation funds, and the funds have generated approximately \$900k in accrued interest, for a total of \$9.5 million. The release of these funds will cover planning, design, and environmental review for the Transmission Lines 7/8 Upgrades project. The SFPUC anticipates collecting a total of \$33.3 million from other solar project developers (whose projects will impact SFPUC facilities). The remaining \$5 million will be funded from Hetch Hetchy Water and Power's capital plan.

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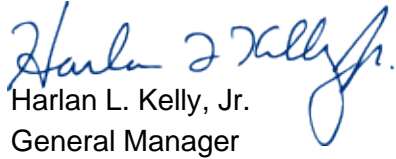
Tim Paulson
Commissioner

Harlan L. Kelly, Jr.
General Manager



As additional funds are received from other solar project developers, and prior to beginning construction, the SFPUC will return to the Budget and Finance Committee to request funding releases to complete the project.

Sincerely,

A handwritten signature in blue ink that reads "Harlan L. Kelly, Jr." with a stylized flourish at the end.

Harlan L. Kelly, Jr.
General Manager

Item 4 File 20-1020	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed hearing would release \$9,500,000 from Budget and Finance Committee reserve for the San Francisco Public Utilities Commission (SFPUC) Transmission Lines 7/8 upgrades. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • When electricity companies propose projects, they submit applications to the California Independent System Operator (CAISO). Projects are managed by CAISO through a cluster process to identify aggregate impacts to the state’s electric grid. CAISO then consults with entities that own power facilities to determine if the project clusters impact their assets and require mitigation payments. San Francisco Public Utilities Commission (SFPUC) owns power facilities in the Central Valley and has received impact mitigation payments from energy developers. In January 2013, the Board of Supervisors approved an ordinance that authorized SFPUC to enter into mitigation agreements for projects that impact SFPUC power assets, requiring that any future funds in excess of \$100,000 for a given mitigation agreement be placed on Budget and Finance Committee reserve. • SFPUC has identified three project clusters, totaling 24 active generation projects, that would affect the SFPUC’s Transmission Lines 7 and 8. Transmission Lines 7 and 8 extend from the Warnerville Substation near Oakdale to the Standiford Substation in Modesto. SFPUC’s plan is to reconductor the lines, which consists of replacing the wire to increase the electric current carrying capacity. SFPUC has completed six mitigation agreements to date for this project and has received \$8,614,559 in mitigation payments. The funds have accrued approximately \$851,000 in interest, for a total available reserve balance of approximately \$9,465,559. SFPUC has 13 additional mitigation agreements that are being negotiated, as well as five others that have not begun discussions. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • SFPUC has completed six mitigation agreements to date for this project and has received \$8,614,559 in mitigation payments. The funds have accrued approximately \$851,000 in interest, for a total available reserve balance of approximately \$9,465,559. SFPUC has 13 additional mitigation agreements that are being negotiated, as well as five others that have not begun discussions • The total estimated cost of the Transmission Lines 7/8 Upgrades project is approximately \$37,970,000. SFPUC anticipates receiving a total of approximately \$33,328,000 in mitigation payments for the project, including \$9,465,559 in payments already received and the balance in future payments. The remainder of the project budget, approximately \$4,642,000 would be funded by the Hetch Hetchy Power Capital Program. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the release of \$9,465,559 from Budget and Finance Committee reserve, consistent with the available reserve balance for the Transmission Lines 7/8 project. 	

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval.

BACKGROUND

When electricity companies propose projects, they submit applications to the California Independent System Operator (CAISO). Projects are managed by CAISO through a cluster process to identify aggregate impacts to the state's electric grid. CAISO then consults with entities that own power facilities to determine if the project clusters impact their assets and require mitigation payments. San Francisco Public Utilities Commission (SFPUC) owns power facilities in the Central Valley and has received impact mitigation payments from energy developers.

In January 2013, the Board of Supervisors approved an ordinance that:

- (1) authorized SFPUC to enter into a System Impact Mitigation Agreement with North Star Solar, LLC (NSS), providing for NSS to pay SFPUC the costs necessary to mitigate the impacts to the City's electric system caused by the interconnection of NSS's solar power project to the electric grid;
- (2) authorized SFPUC to enter into future mitigation agreements for other projects without further Board of Supervisors approval; and
- (3) placed \$2,900,000 in NSS mitigation payments on Budget and Finance Committee reserve, and required that any future funds in excess of \$100,000 for a given mitigation agreement be placed on Budget and Finance Committee reserve (File 12-1007, Ordinance 4-13).

According to Ms. Margaret Hannaford, SFPUC Hetch Hetchy Water and Power Division Manager, SFPUC currently has 13 completed mitigation agreements, and a total of approximately \$18.5 million has been received in mitigation payments.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release \$9,500,000 from Budget and Finance Committee reserve for the SFPUC Transmission Lines 7/8 Upgrades.

According to Ms. Hannaford, SFPUC's Transmission Lines 7 and 8 span approximately 12.6 miles from SFPUC's Warnerville Substation near Oakdale to Modesto Irrigation District's Standiford Substation in Modesto. The lines consist of two separate systems: the structural support system comprised of towers and foundations, and the wire system comprised of conductor, insulators, and hardware.

SFPUC has identified three project clusters that would affect Transmission Lines 7 and 8. SFPUC's recommended project is to re-conductor the lines. This consists of replacing the wire to increase the electric current carrying capability. The total project cost is estimated at approximately \$38 million, and the completion of the project is anticipated in 2024. The proposed release of reserves

would fund the bulk of the project planning, design, and environmental review, which is estimated to cost approximately \$10.1 million.

FISCAL IMPACT

According to Ms. Hannaford, SFPUC has completed six mitigation agreements to date and collected \$8,614,559 in mitigation payments for the Transmission Lines 7/8 Upgrades project. The funds have accrued approximately \$851,000 in interest, bringing the available reserve balance for the project to approximately \$9,465,559.¹ SFPUC has 13 additional mitigation agreements being negotiated, as well as five others that have not begun negotiations, and expects to receive a total of about \$33,328,000 in mitigation payments. The remainder of the project budget, approximately \$4,642,000, would be funded by the SFPUC Hetch Hetchy Power Capital Program. The sources and uses of funds for the project are shown in Table 1 below.

Table 1: Sources and Uses of Funds, Transmission Lines 7/8 Upgrades Project

Sources	Amount
Mitigation Payments	\$33,328,000
Hetch Hetchy Power Capital Program	4,642,000
Total Sources	\$37,970,000
Uses	Amount
Planning	\$2,460,000
Design	5,190,000
Environmental Review	2,460,000
<i>Pre-Construction Subtotal</i>	<i>\$10,110,000</i>
Construction	23,920,000
Construction Management	3,940,000
<i>Construction Subtotal</i>	<i>\$27,860,000</i>
Total Uses	\$37,970,000

Source: SFPUC

According to Ms. Hannaford, the Hetch Hetchy Power Capital Program would fund the project until future mitigation agreements are completed. Future mitigation payments would then be used to reimburse the Capital Program. Ms. Hannaford acknowledges that the plan involves risk, as future mitigation agreements are not guaranteed.

RECOMMENDATION

Approve the release of \$9,465,559 in reserves, consistent with the available reserve balance for the Transmission Lines 7/8 Upgrades project.

¹ SFPUC's letter to the Board of Supervisors reported that the accrued interest amount was approximately \$900,000. According to Ms. Megan Imperial, SFPUC Policy and Government Affairs, the Controller's Office has revised this amount to approximately \$851,000. Therefore, the available balance for the project on Budget and Finance Committee reserve is approximately \$9,465,559.