

File No. 120124

Committee Item No. 6  
Board Item No. 2

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance SUB-Committee      Date: March 28, 2012

Board of Supervisors Meeting

Date 4/10/12

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/>            | Resolution                                   |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ordinance                                    |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget & Legislative Analyst Report          |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ethics Form 126                              |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form (for hearings)             |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
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| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Contract/Agreement                           |
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#### OTHER

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Completed by: Victor Young  
Completed by: Victor Young

Date: March 23, 2012  
Date: 3-29-12

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Agreement - BAE Systems - Shoreside Power at Drydock #2 - Pier 70 - Not to Exceed  
2 \$5,700,000]

3  
4 **Ordinance authorizing the Director of the Port to execute an agreement with BAE**  
5 **Systems San Francisco Ship Repair to install shoreside power equipment at Drydock**  
6 **#2 at Pier 70 for an amount not to exceed \$5,700,000 and exempting the agreement**  
7 **from the contracting requirements of the Administrative Code and Environment Code.**

8 NOTE: Additions are *single-underline italics Times New Roman*;  
9 deletions are *strike-through italics Times New Roman*.  
10 Board amendment additions are double-underlined;  
11 Board amendment deletions are ~~strikethrough-normal~~.

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

13 Section 1. Findings.

14 (a) On December 15, 2011, the Planning Commission reviewed and considered the  
15 Final Environmental Impact Report for the 34<sup>th</sup> America's Cup Regatta (the "Final EIR") in  
16 Planning Department File No. 2010.0493E, consisting of the Draft EIR and the Comments and  
17 Responses document, and found that the report and the procedures through which the Final  
18 EIR was prepared, publicized and reviewed complied with the provisions of the California  
19 Environmental Quality Act (CEQA), the CEQA Guidelines and Chapter 31 of the San  
20 Francisco Administrative Code, and found that the Final EIR reflects the independent  
21 judgment and analysis of the City and County of San Francisco, is adequate and accurate and  
22 objective, and that the Comments and Responses document contained no significant  
23 revisions to the Draft EIR, and certified the completion of the Final EIR in compliance with  
24 CEQA and the CEQA Guidelines.

25 (b) On December 16, 2011, the Port Commission, by Port Commission Resolution No.  
11-79, adopted the CEQA Findings and Mitigation Measure and Reporting Program (MMRP)

1 as the required mitigation measures to be implemented as part of the 34<sup>th</sup> America's Cup  
2 Regatta (the "America's Cup Project").

3 (c) The America's Cup Project requires the temporary removal of shoreside power  
4 equipment at Pier 27, and the MMRP requires, as a mitigation measure, that the Port  
5 construct a 12MW shoreside power system at the Port's shipyard at Drydock #2 at Pier 70 to  
6 serve large cruise, military and other vessels while they are in the drydock.

7 (d) The Port has negotiated with BAE Systems San Francisco Ship Repair ("BAE"),  
8 operator of Drydock #2 and tenant of the Port, an agreement to purchase, construct and  
9 install a 12MW shoreside power system at Drydock #2 at Pier 70 (the "Shoreside Power  
10 Project") to comply with the mitigation measure.

11 (e) Under the agreement, the Port will pay a maximum of \$5,100,000 to BAE for the  
12 Shoreside Power Project, and the Port will provide an additional \$600,000 to BAE for disposal  
13 of PCB transformers removed as part of this project.

14 (f) BAE will pay any costs for the project in excess of \$5,100,000.

15 (g) BAE will select a contractor or contractors to design, purchase, construct and install  
16 the Shoreside Power Project.

17 (h) BAE will design, supervise, and be responsible for the satisfactory completion of  
18 the Shoreside Power Project.

19 (i) The Port will own the Shoreside Power Project on completion of the project.

20 (j) Once the Shoreside Power Project is complete, BAE will continue to pay energy and  
21 demand charges as presently billed by SFPUC for electrical services at Pier 70, but will pay  
22 an additional equipment usage fee to the Port in the amount of \$0.04 per kilowatt hour of  
23 electricity used by the Shoreside Power Project until the cost of the project is repaid. SFPUC  
24 will continue to provide electricity to the project.

25 (k) The Shoreside Power Project must be operable by September 2012.

1 (l) The Port believes it is not feasible to meet this schedule using the City's standard  
2 contracting procedures, and, therefore, seeks to exempt the project from the City's standard  
3 contracting requirements.

4 (m) The terms of the agreement with BAE for the construction of the Shoreside Power  
5 Project are contained in the letter of intent on file with the Clerk of the Board of Supervisors in  
6 File No. 120124 (the "Agreement") which is incorporated herein by reference.

7 (n) The Planning Department has determined that the actions contemplated in this  
8 ordinance have been adequately reviewed and analyzed in the Final EIR. Said determination  
9 is on file with the Clerk of the Board of Supervisors in File No. 111358 and is incorporated  
10 herein by reference. The Board adopted CEQA findings and the MMRP when it approved the  
11 America's Cup Project in Board of Supervisors Resolution No. \_\_\_\_\_, which  
12 findings are applicable to this approval and are incorporated herein by this reference thereto.

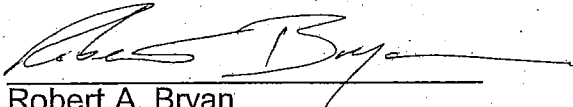
13 Section 2. Subject to the Port Director's determination that it is economically or  
14 technically infeasible to complete the Shoreside Project utilizing a current City-certified  
15 contractor, the Board of Supervisors hereby authorizes the Director of the Port or her  
16 designee to execute an agreement with BAE to design, purchase, and install the Shoreside  
17 Power Project at Pier 70, provided the Port of San Francisco is not required to pay BAE an  
18 amount in excess of \$5,700,000, and, such agreement to be substantially in the form of the  
19 Agreement on file with the Clerk of the Board of Supervisors in File No. 120124.

20 Section 3. Subject to the Port Director's determination that it is economically or  
21 technically infeasible to complete the Project utilizing a current City-certified contractor, the  
22 Board of Supervisors hereby exempts the agreement for the Shoreside Power Project from  
23 the contracting requirements of the Administrative Code and Environment Code, including,  
24 without limitation, Chapters 6, 12C, 12P, 12Q, and 14A, 14B, and 21 of the Administrative  
25

1 Code and Chapters, 2, 5, and 8 of the Environment Code except to the extent the agreement  
2 obligates BAE as contractor, to satisfy such requirements.

3 Section 4. Effective Date. This ordinance shall become effective 30 days from the  
4 date of passage.

5 APPROVED AS TO FORM:  
6 DENNIS J. HERRERA, City Attorney

7 By:   
8 Robert A. Bryan  
9 Deputy City Attorney

**Item 6**  
**File 12-0124**

**Department:**  
Port of San Francisco

## **EXECUTIVE SUMMARY**

### **Legislative Objectives**

- The Port is proposing to enter into a sixth amendment to an existing lease agreement with BAE Systems San Francisco Ship Repair (BAE Systems), in which the Port would pay BAE Systems a not-to-exceed amount of \$5,700,000 to install new shoreside power equipment (Shoreside Power Project) on their leased property at Pier 70. BAE Systems would be responsible for ongoing maintenance and operation of the Shoreside Power Project. Because BAE Systems would select a contractor to install the Shoreside Power Project without undergoing the City's normal competitive bid process, as required by the Administrative Code, including complying with the City's Local Business Enterprise (LBE) requirements, the Port is requesting approval of the proposed ordinance to exempt the sixth amendment from both the City's competitive bidding and LBE contracting requirements.

### **Key Points**

- The Shoreside Power Project is necessary to mitigate the environmental impact of the Pier 27 Cruise Terminal and 34th America's Cup (AC34). According to the Final Environmental Impact Report (EIR) for the Pier 27 Cruise Terminal and AC34, approved by the Board of Supervisors in January 2012, the construction of the Pier 27 Cruise Terminal would result in increased emission of pollutants and violate air quality standards.
- To mitigate this impact, the Port must construct a 12 megawatt power system to serve ships berthing in the drydock at Pier 70 (Shoreside Power Project). The Shoreside Power Project would reduce emissions by allowing ships berthed in the drydock to use power from the City's electrical grid rather than generating power on board through diesel or other generators. To meet AC34 project timelines, the Shoreside Power Project at Pier 70 must be complete and operable by September 2012.
- The Port is requesting that BAE Systems be authorized to award a contract for the construction and installation of the equipment for the Shoreside Power Project. BAE Systems will be responsible for maintaining and operating the Shoreside Power Project equipment subsequent to its installation on the Pier 70 property which BAE Systems leases from the Port. Port staff believes that the time required to execute a competitive process for this project through the City's competitive bidding and LBE contracting procedures would delay project implementation, thereby reducing its effectiveness as an emissions offset project. Therefore, the Port seeks authorization to exempt the proposed sixth agreement to the existing lease agreement between the Port and BAE Systems from the City's competitive bidding and LBE contracting procedures as are presently required under the City's Administrative Code.

### **Fiscal Impacts**

- The Port estimates that the total Shoreside Power Project installation costs would be \$5,700,000. The Port plans to submit legislation to the Board of Supervisors in the spring of 2012 to issue Certificates of Participation (COPs) to fund the Shoreside Power

Project costs, resulting in total estimated costs of \$7,800,000, including \$5,700,000 in project costs and \$2,100,000 in COP and interest and related financing costs.

- Ships using the Shoreside Power Project will pay an equipment usage fee of \$.04 per kilowatt hour (kWh) to BAE Systems, who, in turn, will pay such equipment usage fees to the Port until the cost of the project is repaid or the agreement between the Port and BAE Systems expires in 2017. Additionally, the San Francisco Public Utilities Commission (SFPUC) will provide a project rebate of \$1,500,000 to the Port if the Shoreside Power Project results in increased energy usage of at least 65,628,000 kilowatt hours (kWh) from 2012 through 2017.
- Based on minimum estimates of 65,628,000 kWh used by the Shoreside Power Project from 2012 through 2017, the Port would receive total revenues of \$4,125,120, which is \$3,674,880 less than the total estimated project costs of \$7,800,000, including COP financing and interest costs. Based on maximum estimates of 102,500,000 kWh used by the Shoreside Power Project from 2012 through 2017, the Port would receive total revenues of \$5,600,000, which is \$2,200,000 less than the total estimated project costs of \$7,800,000, including COP financing and interest costs.

#### **Policy Considerations**

- Because the revenue payable to the Port will be less than the Port's total cost for the Shoreside Power Project when the existing lease agreement with BAE Systems expires in 2017, the Port should ensure that the equipment usage fee be included in any subsequent lease agreement for the Port's ship repair facility at Pier 70.

#### **Recommendation**

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors because the ordinance waives the City's competitive bidding and LBE contracting procedures as are presently required under the City's Administrative Code.

## **MANDATE STATEMENT**

Chapter 14 of the City's Administrative Code requires that the Board of Supervisors approve requests to waive the Local Business Enterprise requirements.

Chapter 21 of the City's Administrative Code requires that the Board of Supervisors approve requests to waive competitive requirements pertaining to contract awards.

## **BACKGROUND**

### **Pier 70 Use and Long-term Development/Preservation Plans**

The Pier 70 Master Plan area encompasses 65 acres of Port property from Mariposa to 22<sup>nd</sup> Streets east of Illinois Street. Approximately 17 acres of the 65 acres are currently used as a ship repair facility. The Port owns the primary equipment (the drydocks and cranes) required for ship repair operations and leases them to an operator under an agreement between the Port and BAE

Systems San Francisco Ship Repair (BAE Systems). The Port's Drydock #2 is the largest floating drydock on the US West Coast, and the preservation of the ongoing ship repair operation is a key element of the Pier 70 Preferred Master Plan's historic preservation strategy, as adopted in April 2010.

In 2005, the Port and the Mayor began an extensive planning process to develop a comprehensive approach to analyzing feasibility issues and to establish priorities for future uses of Pier 70. This process led to the creation and endorsement by the Port Commission of the Pier 70 Preferred Master Plan in April 2010, which highlighted the preservation of the ongoing ship repair operation as a key element of the Plan's historic preservation strategy. The Port is in the process of creating new waterfront parks, partnering with the private sector for the historic building rehabilitation and new building opportunities to address the infrastructure and environmental needs of the site.

### **34<sup>th</sup> America's Cup and the Need for New Shoreside Power Facility**

In its report on California Environmental Quality Act (CEQA) findings related to the Environmental Impact Report (EIR) for the 34<sup>th</sup> America's Cup (AC34) and Pier 27 Cruise Terminal, the Planning Commission cited significant adverse cumulative impacts on air quality standards as a result of decommissioning shoreside power during the construction of the Pier 27 Cruise Terminal and use of Pier 27 as a venue for AC34.

In response, the Port Commission adopted a Mitigation Monitoring and Reporting Program (MMRP) to substantially reduce the amount and severity of construction and operational air emission impacts below those presented in the Final EIR. This includes the Port's approval of a mitigation measure to install shoreside power capability at the Pier 70 drydock shipyard.

The Pier 70 Shoreside Power Project would offset vessel emissions generated by AC34 and cruise ship calls to San Francisco during the period when the Pier 27 shoreside power facility is temporarily decommissioned<sup>1</sup>. The Pier 70 Shoreside Power Project will enable cruise ships, cargo and maritime vessels to be powered by the City's power grid while being repaired at the Port's drydock, rather than generating electricity on board using diesel or other fuels.

### **Existing Operator/Lease Terms at Drydock #2 at Pier 70**

The current lease agreement for the Pier 70 shipyard was initiated on December 17, 1987 for a 30-year period to expire on December 16, 2017<sup>2</sup>. The original agreement was between the Port and Southwest Marine, Inc. Southwest Marine was acquired by SF Drydock, Inc. in 1994, which was acquired by BAE Systems San Francisco Ship Repair (BAE Systems) in 2005, who assumed

<sup>1</sup> According to Meghan Wallace, Port Budget Manager, Pier 27 shoreside power has already been decommissioned in preparation for construction which is intended to be completed prior to March 1, 2013, when the Event Authority takes possession of Pier 27 for an AC34 venue. Shoreside power at Pier 27 will be recommissioned during the 2014 cruise season, after the America's Cup events.

<sup>2</sup> The Pier 70 shipyard was privately owned until 1982, when its owner, Bethlehem Steel, went bankrupt. At that time, the City purchased the land and Todd Shipyard purchased the equipment. The City then entered into an agreement with Todd Shipyard to operate the ship repair facility. Todd Shipyard went bankrupt in 1987, at which time the Port entered into a 30-year agreement with Southwest Marine, Inc. for ship repair operations at Pier 70. That entity has been acquired several times since 1987, and is now controlled by BAE Systems.



all rights and interest in the original Pier 70 lease. Under the existing lease terms, BAE Systems is responsible for operating and maintaining the ship repair facilities at Pier 70, including the two drydocks, and pays the Port rent based on its gross revenues.

## DETAILS OF LEGISLATION

In order to comply with the Port's approved mitigation measures for AC34 and the Pier 27 Cruise Terminal, the Port plans to construct the Shoreside Power Project at Pier 70, which is a 12-megawatt power system to serve ships berthing in the drydock. To meet overall AC34 project goals and timelines, the Shoreside Power Project at Pier 70 must be complete and operable by September 2012.

The Port is proposing to enter into a sixth amendment to the existing lease agreement with BAE Systems San Francisco Ship Repair (BAE Systems), in which the Port would pay BAE Systems a not-to-exceed amount of \$5,700,000 for the construction and installation of equipment needed for the Shoreside Power Project on the property which BAE Systems has leased from the Port at Pier 70. BAE Systems would be responsible for ongoing maintenance and operation of the Shoreside Power Project. However, because BAE Systems would select a contractor to construct and install the Shoreside Power Project without undergoing the City's normal competitive bidding procedures, as required by the Administrative Code, and without complying with the City's Local Business Enterprise (LBE) requirements, the Port is requesting approval of the proposed ordinance to exempt the sixth amendment from both the City's competitive bidding and LBE requirements.<sup>3</sup>

Under the sixth amendment, the Port will pay BAE Systems a not-to-exceed amount of \$5,700,000 to contract for the construction and installation of the Shoreside Power Project. The Port is requesting exemption from both the City's competitive bidding and LBE requirements, as required by the Administrative Code, in order for BAE Systems to contract for the construction and installation of the Shoreside Power Project, and to expedite the contracting process in order to complete the Shoreside Power Project prior to the AC34 event. Port staff believes that the time required to utilize the City's normal contracting procedures for the Shoreside Power Project would delay project implementation, thereby reducing its effectiveness as an emissions offset project.

The Public Utilities Commission (PUC) and the Port have submitted a proposed Letter of Intent to BAE Systems listing (a) the Port's payment to BAE Systems of not-to-exceed \$5,700,000 for the Pier 70 Shoreside Power Project, (b) the PUC's project rebate of a \$1,500,000 rebate to the Pier 70 Shoreside Power Project if the shoreside power system results in increased energy usage of 65,628,000 kilowatt hours (kWh) from 2012 through 2017, and (c) BAE Systems' responsibility for installing the shoreside power system. Under the proposed Letter of Intent, ships using the shoreside power system will pay BAE Systems \$0.04 per kWh for all electricity used. BAE Systems, in turn, will pay such revenues to the Port.

<sup>3</sup> The ordinance exempts the agreement for the Pier 70 Shoreside Power Project from Chapters 2, 5 and 8 of the Environment Code. Respectively, the chapters address environmentally preferable purchasing, resource conservation, and the tropical hardwood and virgin redwood ban.

The Letter of Intent between the Port, PUC and BAE Systems was approved by the Port Commission on February 28, 2012, thereby authorizing the Port to execute the proposed sixth amendment to the existing agreement with BAE Systems, which is expected to commence in April of 2012. The Letter of Intent is not subject to Board of Supervisors approval because it is a term sheet that will be memorialized in the sixth amendment to a maritime lease that falls under the authority of the Port Commission.

BAE Systems proposes to enhance the ship repair facility at Pier 70 by modifying the existing shoreside power at the facility to accommodate the requirements of cruise ships as well as other ships. The modification would allow the ships to use 8000 Amps of shoreside power rather than generating electrical power on board through utilizing the ships' diesel engines. In addition, the upgrade will allow the ship repair facility to dispose of PCB<sup>4</sup> regulated transformers throughout the facility.

BAE Systems has selected Eaton Corporation to construct and install the Pier 70 shoreside power system equipment.

## FISCAL IMPACT

The Port plans to fund the Pier 70 Shoreside Power Project through the issuance of Certificates of Participation (COPs) in the spring of 2012. The proposed COP issuance is subject to future Board of Supervisors approval and will be repaid through Port revenues. The Port will use commercial paper to advance funds for the Pier 70 Shoreside Power Project until the COPs are sold.

Total estimated costs of the Shoreside Power Project include \$5,045,712 for construction of the power equipment, \$647,258 to dispose of six PCB transformers that will require replacement for this upgrade, and \$7,030 for permit fees, for a total estimated project cost of \$5,700,000. Table 1 below shows the estimated costs of \$5,700,000 for the Pier 70 Shoreside Power Project, excluding COP financing and interest costs.

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<sup>4</sup> PCBs are polychlorinated biphenyls used in transformers and are considered to be toxic to the environment.

**Table 1: Project Costs for Pier 70 Shoreside Power Project**

<b>Phase 1: Substation #7 to Pier #4</b>		
<i>Labor</i>	\$	98,436
<i>Materials</i>	\$	351,178
<i>Subcontractors</i>	\$	2,540,360
<i>Sales Tax</i>	\$	29,850
Phase 1 Subtotal		\$ 3,019,824
<b>Phase 2: Substation #4 to Drydock #2</b>		
<i>Labor</i>	\$	88,920
<i>Materials</i>	\$	339,325
<i>Subcontractors</i>	\$	1,568,800
<i>Sales Tax</i>	\$	28,843
Phase 2 Subtotal		\$ 2,025,888
<b>Phase 3: Remove &amp; Dispose of PCB Transformers</b>		
<i>Labor</i>	\$	64,272
<i>Materials</i>	\$	234,007
<i>Subcontractors</i>	\$	329,088
<i>Sales Tax</i>	\$	19,891
Phase 3 Subtotal		\$ 647,258
<b>Permit Fees</b>	\$	7,030
Permit Fees Subtotal		\$ 7,030
<b>Total Project Budget</b> (excluding COP financing and interest costs)		
		\$ 5,700,000

Source: Port

BAE Systems will continue to pay energy and demand charges as currently billed by the PUC for electrical services at Pier 70. Ships being repaired at the facility and using the shoreside power will pay an additional equipment usage fee to BAE Systems in the amount of \$.04 per kilowatt hour of electricity used. BAE Systems will, in turn, pay such equipment usage fee revenues to the Port.

Currently, the PUC charges BAE Systems the standard industrial rate for a municipal facility, which is 12.247 cents per kilowatt hour. This charge reflects the Pacific Gas and Electricity (PG&E) rate, and is considered a bundled rate that reflects the cost of the commodity plus the cost of delivery. In addition, the PUC charges BAE Systems a demand charge based upon the time of day and year that the energy is being provided. The demand charge corresponds with on/off-peak usage, and is higher during peak times of the day and year. All of these costs (energy use plus demand charges) are passed on from BAE Systems to the ships utilizing the facility.

The PUC has reviewed the total actual usage required by BAE Systems in 2011 to create a base level for measuring the potential impact of the installation of the proposed Shoreside Power

Project at Pier 70. The PUC then compared the actual 2011 results with the lowest estimate of BAE Systems Ship Repair shoreside electricity usage for the duration of the contract term.

The Port recognizes that if BAE Systems experiences an increase in ship repair work, the PUC will receive increased revenue from the utilization of electricity at the new Pier 70 shoreside power facility. As such, the PUC has agreed to provide the Port a Project Rebate of \$1,500,000 when increased electricity usage reaches the threshold of 65,628,000 kWhr.

The Port has estimated a range (low to high) of potential energy usage scenarios following the installation of the new Pier 70 Shoreside Power Project. As shown in Table 2 below, the Port estimates the minimum shoreside power usage for the remainder of BAE System's contract period to total 65,628,000 kWhr.

**Table 2**  
**BAE Ship Repair Estimated Shoreside Power Usage – Minimum Usage**

Year	# of Days/Year at Drydock		Power Requirement (kW)		Annual Power Usage (kWhr)			
	Military Vessels	Cruise Ships	Military Vessel Load	Cruise Ship Load	Military Vessels	Cruise Ship	Total	
2012	110	36	3,500	4,000	9,240,000	3,456,000	12,696,000	
2013	152	28	3,500	4,000	12,768,000	2,688,000	15,456,000	
2014	97	44	3,500	4,000	8,148,000	4,224,000	12,372,000	
2015	0	12	3,500	4,000	0	1,152,000	1,152,000	
2016	55	27	3,500	4,000	4,620,000	2,592,000	7,212,000	
2017	165	30	3,500	4,000	13,860,000	2,880,000	16,740,000	
<b>Total Estimated kWh</b>								<b>65,628,000</b>

Source: Port

Based on these projections, using the Port's low estimate provided above, BAE Systems will pay to the Port \$2,625,120 from the equipment usage fees of \$.04 per kilowatt hour paid by ships to BAE Systems between 2012 and the end of its agreement term in 2017 (or \$0.04 per kWh x 65,628,000 kWh). Total estimated revenues paid to the Port for estimated minimum usage are \$4,125,120, which include equipment usage fee revenues of \$2,625,120 plus the PUC Project Rebate of \$1,500,000, if the increased electricity usage reaches the threshold of 65,628,000 kWh or higher.

The Port has also estimated maximum total kWhr electricity usage for Pier 70 shoreside power to total 102,500,000 kWhr. At this level of usage, the Port would receive a total of \$4,100,000 in equipment usage fees. Total revenues payable to the Port for estimated maximum usage are \$5,600,000, which includes \$4,100,000 in equipment usage fees and the PUC Project Rebate of \$1,500,000.

Even at the maximum utilization rate, revenues to be received by the Port from the equipment usage fee and the rebate from PUC will be less than the total Shoreside Power Project costs, including COP financing and interest costs, when the agreement with BAE Systems ends in December of 2017. As shown in Table 3 below, the estimated cost to the Port, net of revenue

paid to the Port, for the Pier 70 Shoreside Power Project ranges from \$2,200,000 to \$3,674,880 for the Pier 70 Shoreside Power Project.

**Table 3**  
**Net Costs to the Port for Pier 70 Shoreside Power Project**  
**including COP financing and interest costs**

	Description of Costs	Low Energy Usage Scenario – 65,628,00 kWhr	High Energy Usage Scenario – 102,500,000
<b>Port Costs</b>			
	Pier 70 power facility - Design and Installation	\$5,045,712	\$5,045,712
	PCB Transformers - Removal and Disposal and Permits	\$654,288	\$654,288
	COPs Finance and Interest Charges	<u>\$2,100,000</u>	<u>\$2,100,000</u>
	<i>Total Costs to Port</i>	<i>\$7,800,000</i>	<i>\$7,800,000</i>
<b>PUC Project Rebate</b>			
	Flat rebate paid by PUC to Port, when total increased energy usage at Pier 70 equals 65,628,000 kWhr	<u>\$1,500,000</u>	<u>\$1,500,000</u>
	<i>Total Payments to Port from PUC</i>	<i>\$1,500,000</i>	<i>\$1,500,000</i>
<b>Equipment Usage Fees</b>			
	\$.04/kWhr fee passed on to ships using new Pier 70 power facility	<u>\$2,625,120</u>	<u>\$4,100,000</u>
	<i>Total Revenues Payable to Port</i>	<i>\$2,625,120</i>	<i>\$4,100,000</i>
<b>Net Costs to Port for the Pier 70 Shoreside Power Project</b>		<b>\$3,674,880</b>	<b>\$2,200,000</b>

Source: Budget and Legislative Analyst

## POLICY CONSIDERATION

**The Port should ensure that the equipment usage fees be included in any future lease agreement for the operations of the ship repair facility at Pier 70**

As shown above in Table 3 above, at the termination of BAE's existing agreement with the Port, the Port's costs, net of the revenues received by the Port for the Pier 70 Shoreside Power Project, will range from \$2,200,000 to \$3,674,880, depending on actual electricity used. The Port should include the \$.04 equipment usage fee in any subsequent lease agreement for Pier 70 operations when the agreement with BAE Systems expires in 2017.

Shoreside power has only been available at Pier 27 since 2010, and has already been decommissioned to allow for Pier 27 Cruise Terminal construction. Cruise ships currently berthing at Pier 35 do not have access to shoreside power, and must use auxiliary engines for power. Although the installation of the Shoreside Power Project at Pier 70 is intended to comply with environmental mitigation requirements for the construction of the Pier 27 Cruise Terminal and the America's Cup Event, the Shoreside Power Project will provide ongoing benefits to the Port after the conclusion of the America's Cup in the Fall of 2013, and after shoreside power is restored at Pier 27. As noted in the Pier 70 Master Plan, the preservation of the ongoing ship repair operation is a key element of the Plan's historic preservation strategy. The planned Pier 70 Shoreside Power Project will provide increased capacity for servicing large cruise ships and military vessels, and will provide long-term air quality benefits for the City, and in particular, the southeast neighborhoods surrounding Pier 70.

## RECOMMENDATIONS

Approval of the proposed ordinance is a policy matter for the Board of Supervisors because the ordinance waives the City's competitive bidding and LBE contracting procedures as are presently required under the City's Administrative Code.



February 6, 2012

BAE Systems San Francisco Ship Repair, Inc.  
 Attention: Hugh Vanderspek, General Manager  
 Pier 70, Foot of 20<sup>th</sup> Street  
 San Francisco, CA 94107

Re: Letter of Intent for the Installation of Shore-Side Power at Pier 70

Dear Hugh:

The Port of San Francisco ("**Port**") and the San Francisco Public Utilities Commission ("**SFPUC**") are offering to BAE Systems San Francisco Ship Repair, Inc. ("**BAE**"), the following proposal set forth in this Letter of Intent for the installation of a 12 megawatt shore-side power system ("**Shore Power System**") at the premises leased by Port to BAE at Pier 70. This proposal will be memorialized in an amendment to BAE's lease.

<p>Port Contribution:</p>	<p>Port shall contribute a maximum of \$5.1 million towards the construction cost of the Shore Power System (the "<b>Project Cost</b>"), and an additional \$600,000 to dispose seven PCB transformers being replaced by this upgrade ("<b>PCB Transformer Disposal Cost</b>"). PCB transformer disposal will be documented using a Port United States E.P.A. Generator Number. Any construction costs in excess of the Project Cost and PCB Transformer Disposal Cost shall be paid by BAE. The Project will include installation of revenue quality meters to monitor utilization of power by the Shore Power System.</p> <p>Port shall obtain financing for the Project Cost and PCB Transformer Disposal Cost, and pay all related debt service and finance charges. The Project Cost plus its proportional share of interest and finance charges are the "<b>Total Project Cost</b>".</p>
<p>SFPUC Contribution:</p>	<p>If the Shore Power System results in metered energy usage of 65,628,000 kWh through 2017, the SFPUC will provide a project rebate of \$1.5 million (the "<b>Project Rebate</b>") to the Port.</p>
<p>BAE Contribution:</p>	<p>BAE shall procure, supervise and install the Shore Power System at the Pier 70 Shipyard facility, the costs of which may be included in the Project Cost. During the term of Lease L-11320 BAE will pay Port an equipment charge of \$0.04 cents per kilowatt hour for all electricity used by the Shore Power System (the "<b>Shore Power System Improvement Equipment Charge</b>") until the sum of the Project Rebate collected and the Equipment Charges exceed the Total Project Cost or Lease L-11320 terminates, whichever occurs first.</p>

	SFPUC shall report the actual amount of electricity used by the Shore Power System monthly to the Port and to BAE on BAE's monthly electricity bills.
Design, Bidding and Installation of the Shore Power System:	<p>Port shall timely seek authorization from the City Board of Supervisors permitting BAE to install the Shore Power System, consistent with the terms and conditions of the Port's Lease L-11320 with BAE.</p> <p>After soliciting bids, BAE shall select a contractor to design and construct the Shore Power System that is qualified to do business with the City and County of San Francisco pursuant to the San Francisco Administrative Code.</p> <p>BAE shall enter a guaranteed maximum price contract to install the Shore Power System. The Port shall pay BAE according a schedule of payments described in the amendment to Lease L-11320. During construction, BAE shall submit monthly invoices to Port for construction costs incurred by BAE for the prior month.</p>
Commencement of Construction of Shore Power System:	No later than May 1, 2012
Completion of Construction of Shore Power System:	No later than August 1, 2012 (" <b>Completion Date</b> ")
Commencement of Operation of Shore Power System:	No later than September 1, 2012 (" <b>Operational Date</b> "). The Shore Power System must meet the specifications of the Project Description attached as Exhibit A.
Ownership of Shore Power System:	The Shore Power System, shall at all times, be owned by Port. BAE and any successor operator of the Shore Power System shall utilize power efficiently.
Shore Power System Improvement Equipment Charge:	Total Project Cost will be assessed on BAE and any successor lessee of the Pier 70 Shipyard facility through Lease L-11320 or any successor lease. This Shore Power System Improvement Equipment Charge will be assessed at four cents per kilowatt hour. The Equipment Charge will be collected by Port via lease invoices, until the Total Project Cost is fully amortized for the Port. SFPUC will report Shore Power System usage to BAE on its monthly utility bills and provide monthly reports to the Port.
Source of Power:	SFPUC shall supply power to the Pier 70 Shipyard during the term of Lease L-11320 and any successor lease while Total Project Costs are still being repaid.
California Environmental Quality Act and Permitting:	Port and BAE will initiate a request to the San Francisco Planning Department for review of the Shore Power Project pursuant to the California Environmental Quality Act. BAE will obtain all other required permits for the project, including a Port Building Permit from the Port's Chief Harbor Engineer. Port will assist and support BAE's request for permits in order to accomplish the project on a timely basis.



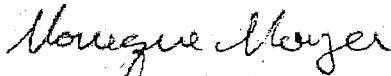
Items listed above are intended solely as a preliminary expression of general terms of a lease amendment and the definitive amendment negotiated and executed between the parties will further define the terms stated in this Letter of Intent and shall include representations, warranties, covenants, conditions, and other terms and provisions as agreed to between the parties.

The parties intend that neither Port nor the SFPUC shall have any contractual obligations to BAE with respect to the terms referred to herein unless and until (i) the Port Commission has approved a definitive lease amendment following review under the California Environmental Quality Act, and all applicable governmental approvals have been fully executed and delivered by the parties; (2) the San Francisco Public Utilities Commission has approved the terms and conditions of the Project Rebate; and (3) the San Francisco Board of Supervisors has authorized the Port to contract with BAE to construct the Shore Power System and appropriated funds to fund the Shore Power System.

The parties agree that this Letter of Intent is not intended to create any agreement or obligation by Port to negotiate a definitive lease amendment and imposes no duty whatsoever on Port, BAE or SFPUC to continue negotiations, including without limitation any obligation to negotiate in good faith or in any way other than at arm's length. Prior to delivery of a definitive executed lease amendment, and without any liability, the parties may (1) propose different terms from those summarized herein, and/or (2) unilaterally terminate all negotiations.

If the terms of this Letter of Intent are not approved by the Port Commission through approval of an amendment to Lease L-11320 by June, 2012, this Letter of Intent will terminate automatically, unless it is extended by written agreement signed by duly appointed representatives of both parties.

Sincerely,




Monique Moyer, Executive Director  
Port of San Francisco



Barbara Hale, Assistant General Manager  
San Francisco Public Utilities Commission

Agreed and Accepted on 2/7, 2012

BAE Systems San Francisco Ship Repair

By: 

Name: HUGH VANDERSPEK

Title: GENERAL MANAGER

Exhibit A: BAE Systems San Francisco Ship Repair Project Summary

**FORM SFEC-126:  
NOTIFICATION OF CONTRACT APPROVAL  
(S.F. Campaign and Governmental Conduct Code § 1.126)**

<b>City Elective Officer Information</b> <i>(Please print clearly.)</i>	
Name of City elective officer(s): Members, Board of Supervisors	City elective office(s) held: Members, Board of Supervisors

<b>Contractor Information</b> <i>(Please print clearly.)</i>	
Name of contractor: <b>BAE Systems San Francisco Ship Repair, a California Corporation</b>	
<i>Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary.</i>	
(1) Ian Thomas Graham, Director; Bradley Warren Jacobs, Director (2) Douglas Coleman, Vice President & Secretary; David A. Herr, President; Paul W. Cobb, Jr., Vice President & Assistant Secretary; John Marinucci, Vice President & Treasurer; Raymond A. Parra, Assistant Secretary; Terry L. Shaw, Assistant Treasurer (3) None (4) Eaton Corporation (5) None	
Contractor address: Pier 70, Foot of 20 <sup>th</sup> Street, San Francisco, CA 94107	
Date that contract was approved: <i>(By the SF Board of Supervisors)</i>	Amount of contract: \$ 5,700,000
Describe the nature of the contract that was approved: The purchase, construction, and installation of a 12 megawatt shoreside power system within the BAE San Francisco Ship Repair yard leasehold.	
Comments:	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form

a board on which the City elective officer(s) serves: San Francisco Board of Supervisors  
Print Name of Board

the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

<b>Filer Information</b> <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: ( 415 ) 554-5184
Address: City Hall, Room 244, 1 Dr. Carlton B. Goodlett Pl., San Francisco, CA 94102	E-mail: Board.of.Supervisors@sfgov.org

_____ Signature of City Elective Officer (if submitted by City elective officer)	_____ Date Signed
_____ Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk)	_____ Date Signed

**LEGISLATIVE DIGEST**

[Shoreside Power at Drydock #2 at Pier 70]

**Ordinance authorizing the Director of the Port to execute an agreement with BAE Systems San Francisco Ship Repair to install shoreside power equipment at Drydock #2 at Pier 70 for an amount not to exceed \$5,700,000 and exempting the agreement from the contracting requirements of the Administrative Code and Environment Code.**

The Proposed Ordinance

1. The proposed ordinance authorizes the Director of the Port or her designee to execute an agreement with BAE Systems San Francisco Ship Repair ("BAE") to design, purchase, and install a shoreside power system at Pier 70 in an amount not to exceed \$5,700,000 if the Director of the Port determines that it is not economically or technically feasible to complete the project using a current City-certified contractor.
2. If the Director of the Port determines that it is not economically or technically feasible to use a current City-certified contractor to complete the project, the proposed ordinance exempts the agreement with BAE from the contracting requirements of the Administrative Code and the Environment Code, except to the extent the agreement obligates BAE to satisfy those requirement

Background Information

On December 15, 2011, the Planning Commission reviewed and considered the Final Environmental Impact Report for the 34<sup>th</sup> America's Cup Regatta (the "Final EIR") in Planning Department File No. 2010.0493E, and certified the completion of the Final EIR in compliance with CEQA and the CEQA Guidelines. On December 16, 2011, the Port Commission, by Port Commission Resolution No. 11-79, adopted the CEQA Findings and Mitigation Measure and Reporting Program (MMRP) as the required mitigation measures to be implemented as part of the 34<sup>th</sup> America's Cup Regatta (the "America's Cup Project"). The America's Cup Project requires the temporary removal of shoreside power equipment at Pier 27, and the MMRP requires, as a mitigation measure, that the Port construct a 12MW shoreside power system at the Port's shipyard at Drydock #2 at Pier 70 to serve large cruise, military and other vessels while they are in the drydock.

The shoreside power system must be operable by September 2012. However, the Port does not believe it would be possible to meet this schedule using the City's standard contracting requirements. Therefore, the Port has negotiated an agreement with BAE that would require BAE to purchase, construct and install the shoreside power system and the Port to pay BAE a maximum of \$5,100,000 for the work on the system, and an additional \$600,000 for the

disposal of PCB transformers to be removed as part of the project. Once the project is complete, BAE will continue to pay energy and demand charges as presently billed by SFPUC for electrical services at Pier 70, but will pay an additional equipment usage fee to the Port in the amount of \$0.04 per kilowatt hour of electricity used by the Shoreside Power Project until the cost of the project is repaid. The SFPUC will continue to provide electricity to the project.