

File No. 220807

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date July 27, 2022

Board of Supervisors Meeting Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report |
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| <input type="checkbox"/> | <input type="checkbox"/> | Form 126 – Ethics Commission |
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Completed by: Brent Jalipa Date July 21, 2022

Completed by: Brent Jalipa Date _____



OFFICE OF THE GENERAL MANAGER

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July 8, 2022

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 \$12 Million Reserve for Transmission Lines 7/8 Upgrades

Dear Madam Clerk:

I would like to calendar the release of \$12 Million in Budget and Finance Committee reserve for the San Francisco Public Utilities Commission (SFPUC) Transmission Lines 7/8 Upgrades.

There are hundreds of proposed electric generating projects, called "Clusters", that seek to interconnect with the electric transmission system controlled by the California Independent System Operator (CAISO). Clusters that impact the grid are required to pay the owner of the affected facilities for mitigation of any impacts. The SFPUC is the owner of the facility affected by projects that seek to connect to the grid; in order for the projects to connect to the grid, the project owners pay SFPUC mitigation payments. The mitigation payments assist SFPUC in upgrading the lines that connect these projects as well as SFPUC's facilities to the grid.

On January 15, 2013, the Board of Supervisors passed Ordinance 4-13, authorizing the 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 is ready to begin work on upgrading Transmission Lines 7/8 and the project is now entering the construction phase. On June 28, 2022, the SFPUC Commission approved the award of contract HH-1007 Transmission Line 7/8 Upgrades.

OUR MISSION: To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.

London N. Breed
Mayor

Anson Moran
President

Newsha Ajami
Vice President

Sophie Maxwell
Commissioner

Tim Paulson
Commissioner

Dennis J. Herrera
General Manager

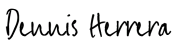


To date, the SFPUC has completed 11 mitigation agreements related to Lines 7/8 and has received \$20.86 million from developers for mitigation funding. An additional \$5.21 million in Hetch Hetchy Power capital program bond funds has been appropriated for this project. There are currently ten mitigation agreements still in negotiation with other developers that could result in additional funds. In September 2020, the SFPUC requested, and the Budget and Finance Committee approved, a release of \$9.46 million in mitigation payments and accrued interest for the Transmission Lines 7/8 project.

The total estimated cost of the Transmission Lines 7/8 Upgrades project is approximately \$37.97 million. The SFPUC is requesting Budget and Finance Committee approval to release \$12 million (including accrued interest) from Budget and Finance Committee reserve, consistent with the available reserve balance for the Transmission Lines 7/8 project.

As additional funds are received from other renewable generation project developers, the SFPUC will return to the Budget and Finance Committee to request funding releases to reimburse capital program (bond) funding.

Sincerely,

DocuSigned by:

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Dennis J. Herrera
General Manager
San Francisco Public Utilities Commission

Item 2 File 22-0807	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 \$12,000,000 from Budget and Finance Committee reserve for the San Francisco Public Utilities Commission (SFPUC) Transmission Lines 7/8 Upgrades project. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> There are hundreds of proposed electric generating projects seeking to interconnect with the electric transmission system controlled by 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. SFPUC owns transmission facilities in the Central Valley that can be affected by these proposed projects. Projects that impact the electric grid in California are required to pay the owner of the affected facilities to reimburse the expenditures required to mitigate the impacts. SFPUC has identified 21 projects that would affect SFPUC's Transmission Lines 7/8 from the Warnerville to Standiford substations and could result in mitigation payments. On January 15, 2013, the San Francisco Board of Supervisors passed an Ordinance (File No. 12-1007, Ordinance 4-13) that authorized the SFPUC to enter into mitigation agreements for projects that impact SFPUC power assets. The Ordinance requires that any funds resulting from the mitigation agreements that exceed \$100,000 must be placed on Budget and Finance Committee Reserve. SFPUC has completed 11 mitigation agreements for a total of \$20.86 million in mitigation payments, with 10 mitigation agreements still being negotiated. In September 2020, the Budget and Finance Committee approved the release of \$9.47 million in mitigation payments and accrued interest to the SFPUC for the Transmission Lines 7/8 Project. The remaining mitigation payments and accrued interest available on reserve total \$12.06 million according to SFPUC. The Transmission Lines 7/8 Upgrades project is designed to mitigate the risks imposed by the interconnection of these electric generating projects to the grid by modifying existing towers and reconductoring transmission lines. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> SFPUC anticipates that the total cost of the Transmission Lines 7/8 Upgrades project is approximately \$37,969,000. The project is funded by \$4,669,000 from Hetch Hetchy Power Capital Program bond funding and \$33,300,000 in estimated mitigation payments from renewable generation developers. As additional funds are received from the developers, SFPUC will request funding releases from the Budget and Finance Committee to reimburse the upfront payments from its capital program funding. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approve the release of \$12,000,000 in reserves, consistent with the available reserve balance for the Transmission Lines 7/8 Upgrades 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. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee without further Board of Supervisors approval.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) electric transmission Lines 7/8 conveys power from Warnerville Substation to Modesto Irrigation District's Standiford Substation. SFPUC's Hetch Hetchy Water Division manages and operates the transmission lines.

There are hundreds of proposed electric generating projects seeking to interconnect with the electric transmission system controlled by the California Independent System Operator (CAISO).¹ As part of the CAISO transmission interconnection process, renewable energy project developers submit applications to CAISO. Projects are managed by CAISO through a cluster process to identify aggregate impacts to the state's electric grid. SFPUC owns transmission facilities in the Central Valley that can be affected by these proposed projects.

Projects that impact the grid are required to pay the owner of the affected facilities (in this case SFPUC) to reimburse the expenditures required to mitigate the impacts. SFPUC has identified 21 projects that would affect SFPUC's Transmission Lines 7/8, that could result in mitigation payments to SFPUC.

Authorization for SFPUC to Enter Mitigation Agreements

On January 15, 2013, the San Francisco Board of Supervisors passed an Ordinance (File No. 12-1007, Ordinance 4-13) that authorized the SFPUC to enter into mitigation agreements for projects that impact SFPUC power assets. The Ordinance requires that any funds resulting from the mitigation agreements that exceed \$100,000 must be placed on Budget and Finance Committee Reserve.

Mitigation Payments for SFPUC Lines 7 and 8, to Date

According to SFPUC, as of June 28, 2022, SFPUC has completed 11 mitigation agreements for a total of \$20.86 million in mitigation payments, with 10 mitigation agreements still being negotiated. In September 2020, the Budget and Finance Committee approved the release of \$9.47 million in mitigation payments and accrued interest to the SFPUC for the Transmission Lines 7/8 Project (File No. 20-1020). The remaining mitigation payments and accrued interest available on reserve total \$12.06 million according to SFPUC.

¹ CAISO is a nonprofit public benefit organization that manages the flow of electricity across the high voltage, long-distance power lines for the grid serving 80 percent of California and a small part of Nevada.

Of the \$9.47 million previously released from reserve, \$876 has been spent for fees related to contract advertisement, and \$935,170 has been encumbered for construction management support provided by SFPUC. The remaining \$8.53 million was unspent as of July 2022.

Project Overview

SFPUC's Transmission Lines 7/8 span approximately 12.5 miles from the Warnerville Substation in Oakdale, CA to the Modesto Irrigation District Standiford Substation in Modesto, CA. The lines consist of two separate systems: the structural support system comprised of towers and foundations, and the wire system comprised of conductors, insulators, and hardware.

SFPUC has identified three project clusters that would affect Transmission Lines 7/8. The objective of this project is to upgrade the existing conductors along the Lines to accommodate the additional transmission power flows caused by the interconnection of electric generating projects to the electric grid. Attachment 1 shows the location of Transmission Lines 7/8 and Attachment 2 shows a project detail map for the upgrades.

Project Timeline

The project began on January 1, 2020 and is expected to be completed by January 31, 2025. The planning, design, and environmental review phases have been completed. Funding for this portion of the project was covered by the Hetch Hetchy Water and Power Capital Program (\$5,208,000 appropriated to date according to the SFPUC). As mitigation funding becomes available, it is used to reimburse the Capital Program funds.

On February 11, 2022, the SFPUC advertised the contract for the project construction work and received three responsive bids. Wilson Utility Construction Company (Wilson) was the lowest responsive bidder.

On June 28, 2022, the SFPUC Commission approved the award of the contract (No. HH-1007) to Wilson Utility Construction Company for a total amount of \$23,980,141. Wilson met the 10 percent Local Business Enterprise (LBE) subcontracting participation requirement for this contract.

As of June 2022, construction is expected to begin on October 1, 2022 and be completed by July 31, 2024.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release \$12,000,000 from Budget and Finance Committee reserve for the San Francisco Public Utilities Commission (SFPUC) Transmission Lines 7/8 Upgrades project.

This amount is consistent with the available project reserve balance (including accrued interest) provided by SFPUC to our office.

The funds will be used to reconductor transmission lines and modify existing towers along Transmission Lines 7/8 from Warnerville to Standiford substations to accommodate the additional transmission power flows caused by the interconnection of electric generating projects to the electric grid.

FISCAL IMPACT

SFPUC anticipates that the total cost of the Transmission Lines 7/8 Upgrades project is approximately \$37,969,000. The project is funded by Hetch Hetchy Power Capital Program bond funding and mitigation payments from renewable generation developers. The sources and uses of funds for the project are shown in Exhibit 1 below.

Exhibit 1: Projected Sources and Uses of Funds for SFPUC Transmission Lines 7/8 Upgrade Project

Sources	Amount
Mitigation Payments	\$33,300,000
Hetch Hetchy Power Capital Program	\$4,669,000 ^a
Total Sources	\$37,969,000

Uses	Amount
Planning	\$802,000
Design	\$4,056,000
Environmental Review	\$222,000
<i>Pre-Construction Subtotal</i>	<i>\$5,080,000</i>
Construction	\$28,173,000
Construction Management	\$4,716,000
<i>Construction Subtotal</i>	<i>\$32,889,000</i>
Total Uses	\$37,969,000

Source: SFPUC

Notes: ^a This is the amount that is expected to be funded from the Capital Plan by the end of the project, assuming SFPUC receives the full \$33.3 million in mitigation payments. As mentioned above, \$5.21 million from the Hetch Hetchy Power Capital Program has been appropriated for this project. As mitigation funding becomes available, it is used to reimburse the Capital Program funds.

The SFPUC estimates the total mitigation payments will be \$33.3 million, funding 88 percent of total project costs. The CAISO staff reviewed the proposed project cost and plan and provided feedback to SFPUC. So far, SFPUC has received over 60 percent, or \$20.86 million, of the anticipated \$33.3 million in mitigation payments. 10 more mitigation agreements with renewable generation project developers are in negotiation. As additional funds are received from the developers, SFPUC will request funding releases from the Budget and Finance Committee to reimburse the upfront payments from its capital program funding.

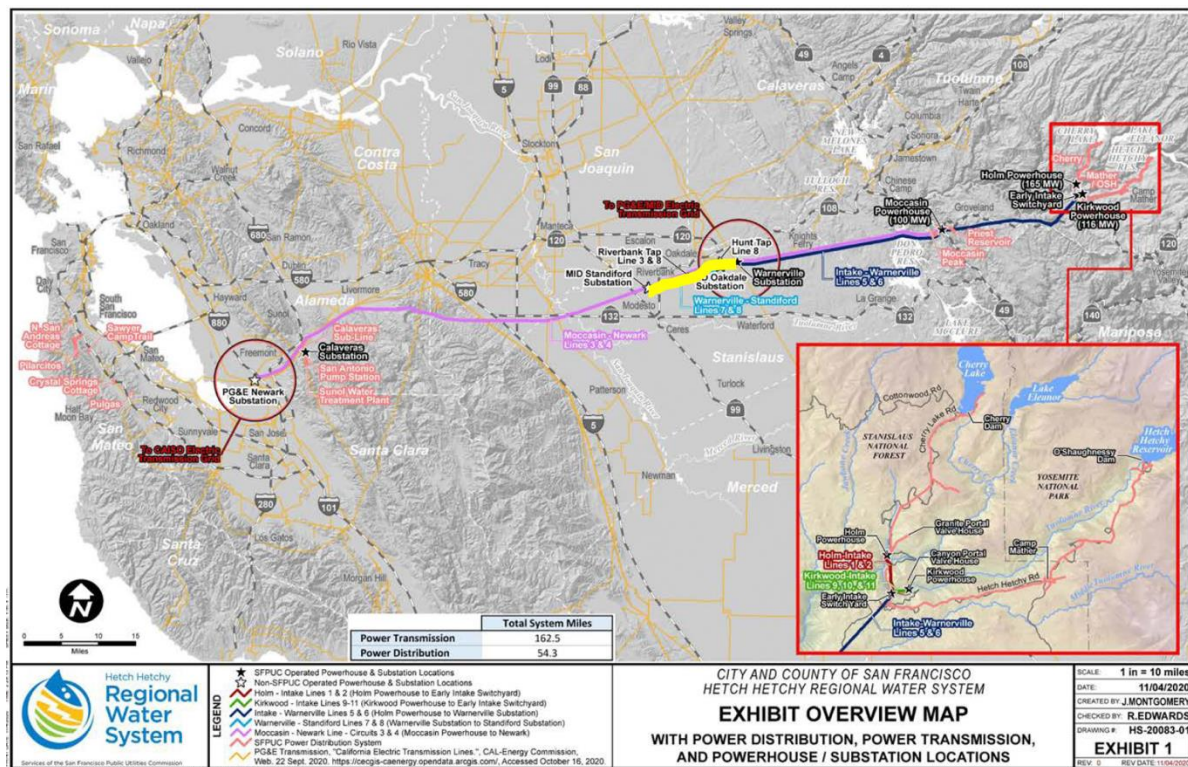
The total project budget is comparable to the total project budget reviewed by our office in September 2020. However, the current pre-construction budget (including planning, design, and environmental review) of \$5.08 million is approximately \$5.0 million less than the pre-construction budget in September 2020, because the Design and Environmental phases came in below previous estimates according to SFPUC staff. In addition, the construction budget of \$32.89 million is approximately \$5.0 million more than the construction budget in September 2020 due to the need to mitigate multiple project delivery risks, including COVID-19, supply chain

challenges, and construction management staffing. If the project comes in under budget, project savings would accrue to the Capital Program according to SFPUC staff.

RECOMMENDATION

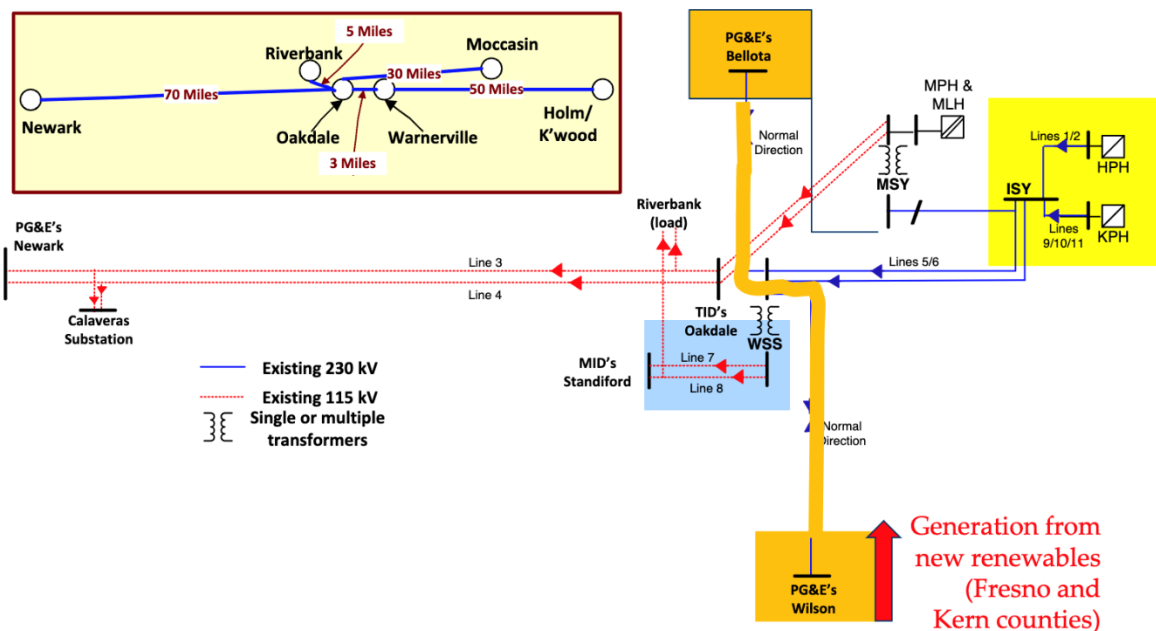
Approve the release of \$12,000,000 in reserves, consistent with the available reserve balance for the Transmission Lines 7/8 Upgrades project.

Attachment 1: SFPUC Transmission Lines 7/8 Upgrades Project Overview Map



Source: SFPUC

Attachment 2: SFPUC Transmission Lines 7/8 Upgrades Project Detail Map



Source: SFPUC