

File No. 240394

Committee Item No. 3

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date May 8, 2024

Board of Supervisors Meeting Date _____

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| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
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Completed by: Brent Jalipa Date May 2, 2024

Completed by: Brent Jalipa Date _____



San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

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April 16, 2024

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 \$2,437,812.23 Reserve for Transmission Lines 7/8 Upgrades

Dear Madam Clerk:

I would like to calendar the release of \$2,437,812.23 in Budget and Finance Committee reserves for the San Francisco Public Utilities Commission (SFPUC) Transmission Lines 7/8 Upgrades Project.

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.

The Transmission Lines 7/8 Upgrades Project is substantially complete with final completion expected by July 2024.

London N. Breed
Mayor

Tim Paulson
President

Anthony Rivera
Vice President

Newsha K. Ajami
Commissioner

Sophie Maxwell
Commissioner

Kate H. Stacy
Commissioner

Dennis J. Herrera
General Manager

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.

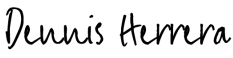


As of February 29, 2024, SFPUC has executed 15 agreements and collected \$29.119 million from developers for mitigation funding. There are currently five mitigation agreements under negotiation. Of the \$29.119 million in signed agreements, the SFPUC has received \$29.119 million in payments with no Letters of Credit being held. On September 23, 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. 201020); on July 27, 2022 the Budget and Finance committee approved the release of \$12 million in mitigation payments and accrued interest (File No.220807), and on May 24, 2023, the Budget and Finance committee approved the release of \$6.88 million in mitigation payments and accrued interest (File No.230551). The remaining mitigation payments and accrued interest available on reserve total is \$2,437,812.23.

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 \$2,437,812.23 (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 3 File 24-0394	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 \$2,437,812.23 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"> In January 2013, the Board of Supervisors passed an ordinance (File No. 12-1007) 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. As of February 29, 2024, SFPUC has completed 15 mitigation agreements generating \$29.1 million, with five mitigation agreements still being negotiated. The remaining mitigation payments and accrued interest available on reserve total \$2,437,812. Mitigation payments offset the cost of a \$35.4 million capital project to upgrade Transmission Lines 7 and 8, which connect Warnerville and Standiford substations. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The proposed release of reserved funds will reduce the use of Hetch Hetchy capital funds for the Transmission Lines 7 & 8 Upgrade project. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approve the release of \$2,437,812.23 in reserves. 	

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**Transmission Line Upgrade**

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.

Hundreds of proposed electric generating projects seek 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 the CAISO. The CAISO manages projects through a cluster analysis to identify aggregate impacts on the state's electric grid. San Francisco Public Utilities Commission (SFPUC) owns transmission facilities in the Central Valley that can be affected by these proposed projects.

Projects that impact the grid are required to reimburse the owner of the affected facilities (in this case, SFPUC) for the spending required to mitigate the impacts. SFPUC identified three project clusters that impact SFPUC's Transmission Lines 7 and 8, resulting in mitigation payments to SFPUC. The Department is using this funding to upgrade the affected transmission lines to accommodate higher power flows.

Authorization for SFPUC to Enter Mitigation Agreements

In January 2013, the Board of Supervisors passed an ordinance (File 12-1007) 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 Transmission Lines 7 and 8

As of February 29, 2024, SFPUC has completed 15 mitigation agreements for a total of \$29.1 million, with five 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 20-1020), and in July 2022 the Budget and Finance Committee approved the release of \$12 million in mitigation payments and accrued interest (File 22-0807). In May 2023, the Budget and Finance Committee

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.

approved the release of \$6.9 million in mitigation payments and accrued interest (File 23-0551). The remaining mitigation payments and accrued interest available on reserve total \$2,437,812.

Project Status

The transmission upgrade project began on January 1, 2020 and is expected to be closed out by December 31, 2024. The planning, design, and environmental review phases have been completed, and the project is currently in construction. Funding for the initial portion of the project was covered by the Hetch Hetchy Water and Power Capital Program (\$16 million appropriated to date). 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.

Construction began on September 28, 2022. According to SFPUC staff, as of March 2024, all physical construction work is 98 percent complete. Construction is expected to be fully completed by June 2024.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release \$2,437,812.23 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 enhance transmission lines and modify existing towers along Transmission Lines 7 and 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 and 8 Upgrade project is approximately \$35,427,000. 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 Table 1 below.

Table 1. SFPUC Transmission Lines 7/8 Upgrade Project Budget

Sources	Amount
Mitigation Payments	\$33,300,000
Hetch Hetchy Power Capital Program	\$2,127,000*
Total Sources	\$35,427,000

Uses	Amount
Planning	\$802,000
Design	\$4,056,000
Environmental Review	\$222,000
<i>Pre-Construction Subtotal</i>	<i>\$5,080,000</i>
Construction	\$26,273,000
Construction Management	\$4,074,000
<i>Construction Subtotal</i>	<i>\$30,347,000</i>
Total Uses	\$35,427,000

Source: SFPUC

*Note: 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. \$16 million from the Hetch Hetchy Power Capital Program has been appropriated for this project, of which \$7 million has been reimbursed by mitigation payments. As mitigation funding becomes available, it is used to reimburse the Capital Program funds. Five more mitigation agreements with renewable generation project developers are being negotiated.

According to the FY 2023-24 Third Quarterly Report (January to March 2024) on the Hetch Hetchy Capital Improvement Program, \$31.91 million has been spent on this project to date.

RECOMMENDATION

Approve the release of \$2,437,812.23 in reserves.