

**MEMORANDUM**

June 5, 2014

**TO:** MEMBERS, PORT COMMISSION  
Hon. Leslie Katz, President  
Hon. Willie Adams, Vice President  
Hon. Kimberly Brandon  
Hon. Mel Murphy  
Hon. Doreen Woo Ho

**FROM:** Monique Moyer  
Executive Director

**SUBJECT:** Request approval of License 15762 with Pacific, Gas and Electric Company for the ZA-1 Embarcadero-Potrero 230kV Transmission Project for approximately (i) 435,600 square feet of submerged land between Pier 28½ and the foot of 23rd Street, (ii) 52,272 square feet of underground access for horizontal directional drilling and (iii) 21,120 square feet of land along 23<sup>rd</sup> Street for a 40 year term, with a 26 year option, subject to approval by the Board of Supervisors

**DIRECTOR'S RECOMMENDATION:** Approve Attached Resolution

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**Note:** This staff report includes errata shown in underline that were added since the original Port Commission staff report.

**Introduction**

On November 13, 2012, the Port Commission approved Resolution 12-90, endorsing the ZA-1 Embarcadero-Potrero 230kV Transmission Project Term Sheet (“Original Term Sheet”) between the Port and Pacific, Gas and Electric Company (PG&E), all related to onshore and submerged Port land between Pier 28 ½ and the foot of 23rd Street and PG&E parcels Block 4110 (Lot 008A) and Block 4120 (Lot 002), commonly known as the “Hoedown Yard” (see Exhibits A and B).

On September 10, 2013, the Port Commission approved Resolution 13-34, endorsing a Revised Project Term Sheet (“Revised Term Sheet”), which incorporated revised business terms negotiated by the Parties, including a new requirement to screen or enclose the existing PG&E 115kV Switchyard located between 22<sup>nd</sup> Street and 23<sup>rd</sup> Street along Illinois Street.

**THIS PRINT COVERS CALENDAR ITEM NO. 12B**

On February 25, 2014, the Board of Supervisors approved Resolution 54-14, endorsing the Revised Term Sheet with a number of modifications recommended by the Board of Supervisors and its Budget Analyst, as further described in this report.

This report describes the terms of proposed License 15762 with PG&E for the ZA-1 Embarcadero-Potrero 230kV Transmission Project for approximately (i) 435,600 square feet of submerged land between Pier 28½ and the foot of 23rd Street, (ii) 52,272 square feet of underground access for horizontal directional drilling and (iii) 21,120 square feet of land along 23<sup>rd</sup> Street for a 40 year term, with a 26 year option (the “ZA-1 License”), and requests Port Commission approval of the attached resolution approving the ZA-1 License, subject to approval by the Board of Supervisors.

This report also includes a description of a proposed Option Agreement and companion Purchase and Sale Agreement for the Hoedown Yard (the “Hoedown Yard Option”) between the Department of Real Estate and PG&E that is not subject to approval by the Port Commission but will be considered by the Board of Supervisors in tandem with the ZA-1 License.

## **I. ZA-1 LICENSE**

### **Background**

After examining two upland alternative routes through City neighborhoods, Pacific Gas & Electric (“PG&E”) proposes to construct a new, single circuit, 230 kV transmission line between its Embarcadero Substation and its Potrero Substation to increase reliability of electric service to downtown San Francisco and provide operational flexibility along a route of submerged Port property (“ZA-1 Project”). Exhibit C to this staff report shows the service area of the existing Embarcadero Substation that will benefit from this reliability improvement. Exhibit A to this staff report (the “Premises”) shows the proposed submarine route for the project along Port submerged land.

According to the California Public Utilities Commission (“CPUC”), PG&E submitted an application for the project to the CPUC on December 11, 2012 (Application # [A.12-12-004](#)<sup>1</sup>). On October 30, 2013 the CPUC published a Final Mitigated Negative Declaration<sup>2</sup>. The CPUC approved the project on January 16, 2014 (Decision # [D.14-01-07](#)<sup>3</sup>). Exhibit D to this staff report summarizes the CPUC decision findings related to

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<sup>1</sup> PG&E CPUC Application:

[http://delaps1.cpuc.ca.gov/CPUCProceedingLookup/?p=401:56:1249097859999101::NO:RP,57,RIR:P5,PROCEEDING\\_SELECT:A1212004](http://delaps1.cpuc.ca.gov/CPUCProceedingLookup/?p=401:56:1249097859999101::NO:RP,57,RIR:P5,PROCEEDING_SELECT:A1212004)

<sup>2</sup> CPUC Final Mitigated Negative Declaration:

<http://www.cpuc.ca.gov/Environment/info/aspen/embarc-potrero/toc-fmnd.htm>

<sup>3</sup> CPUC Decision:

<http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=85875195>

the project. Exhibit E to this staff report includes the mitigation measures adopted by the CPUC for the project which are incorporated into the proposed Project. If the Port Commission adopts the attached resolution, these measures will be conditions of Port Commission approval of the License. The Port will receive copies of all mitigation monitoring reports to the CPUC.

The ZA-1 Project is subject to other required proprietary and regulatory approvals, including approval by the Federal Energy Regulatory Commission (“FERC”) and the California Independent System Operator (“CAISO”).

## **Project Description**

As described in the September 6, 2013 Port Commission staff report, the proposed Embarcadero-Potrero cable, or ZA-1 Project, would provide a third cable into Embarcadero Substation. Seismic risk is a key consideration in its design and routing. If approved, the ZA-1 Project will also connect PG&E’s 230 kV system in San Francisco with both the Trans Bay Cable (“TBC”)<sup>4</sup> and PG&E’s existing 115 kV systems in San Francisco, providing operational flexibility to both the 230 kV and 115kV systems. Both PG&E and City staff consider the Embarcadero-Potrero 230 kV Transmission Project a high priority because of the impact that outages would have on downtown San Francisco.

The project will involve both transmission line work and substation work. Three major elements are:

1. Construct an approximately 3.5 mile, 230 kV submarine cable between the Embarcadero Substation and the Potrero Switchyard;
2. Terminate the new cable into a 230 kV bus (to be upgraded as part of a separate reliability project that PG&E is undertaking) at the Embarcadero Substation; and
3. Construct a new 230 kV switchyard adjacent to the Potrero Switchyard, terminate the new cable there, and interconnect the new 230 kV and existing 115 kV switchyards at Potrero Substation via two new 230/115 kV transformers.

The submarine cable route will run in a reinforced underground duct bank the length of 2 city blocks along the TBC alignment as it exits the Potrero Switchyard and enters the Bay. It will then continue in the Bay along the general alignment and several hundred feet to the west of the TBC, and then return to land 2-3 city blocks from the Embarcadero Substation, where it will be installed in a reinforced underground duct bank to the substation. Both landings from the Bay to land will be accomplished through horizontal directional drilling (see Exhibit A).

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<sup>4</sup> On August 7, 2007, by Resolution 414-07, the San Francisco Board of Supervisors approved licenses totaling 39 years (including options) for the construction and operation of the Trans Bay Cable on Port submerged land. The Trans Bay Cable project is a 53 mile high-voltage direct current (HVDC Plus) underwater cable interconnection between San Francisco and Pittsburg that transmits up to 400 MW of power.

Port Engineering and Maritime Division staff have reviewed the proposed route and determined that 1) the PG&E plan to install the cable beneath bedrock (adjacent to Piers 30-32 will not hinder maritime operations along side the pier or future dredging of the area (if needed), and 2) the submarine portion of the route is at a sufficient depth so as not to interfere with future maritime operations.

### **Seismic Risk and Power Service to Downtown San Francisco**

According to the CPUC, the ZA-1 Project will provide significant protection to San Francisco in the aftermath of a major earthquake:

“Both [existing] cables [serving downtown San Francisco] are located in areas of San Francisco expected to be subject to significant liquefaction in the event of a major earthquake. PG&E retained InfraTerr, Inc., a specialist in seismic response of infrastructure systems, and an independent technical review panel consisting of Dr. Thomas O’Rourke of Cornell University and Dr. Steve Kramer of the University of Washington, both recognized experts in seismic response, to evaluate the seismic risk to the two cables. The study shows that there is a 91.1 percent probability of concurrent failure of the two cables in the event of a magnitude 7.8 earthquake on the San Andreas Fault, and a 48.2 percent probability of concurrent failure in the event of a magnitude 7.0 earthquake on the Hayward fault. It further shows that the overall 30-year and 50-year probabilities for concurrent failure are 26 percent and 39.4 percent, respectively.

“Physical damage to each could take two to four months to fix and would have severe economic impacts on downtown San Francisco. PG&E retained Dr. Michael Sullivan of Freeman, Sullivan & Co., an expert in electrical outage costs, to analyze the expected economic costs to businesses of long duration outages in downtown San Francisco. Direct costs to local businesses would range from \$125.7 million in the event of a 24-hour outage to nearly \$3 billion in the event of a seven-week outage. Indirect costs experienced by businesses in California as a whole would range from \$62.9 million to \$251.4 million in the event of a 24-hour outage to \$1.461 billion to \$5.845 billion in the event of a seven-week outage. In addition, many residents, particularly those that live in high-rise buildings that rely on mechanical ventilation and elevators, would have to evacuate their homes and find other places to live during the outage; governmental agencies would incur significant additional costs to provide security, traffic control and emergency services during an outage; and an extended outage would cause many businesses to fail and jobs to be lost.

“The third cable provided by the [ZA-1] project is designed to withstand a 7.8 magnitude earthquake on the San Andreas Fault.”

### **Prior Staff and Board of Supervisors Budget Analyst Analysis**

Port staff and the Board of Supervisors Budget Analyst have drafted three prior reports on the proposed ZA-1 Project, available at the following web addresses:

<b>Report</b>	<b>Web Address</b>
November 8, 2012 Staff Report on the Original ZA-1 Term Sheet	Report: <a href="http://www.sfport.com/modules/showdocument.aspx?documentid=4928">http://www.sfport.com/modules/showdocument.aspx?documentid=4928</a>
September 6, 2013 Staff Report on the Revised ZA-1 Term Sheet	Report: <a href="http://www.sfport.com/modules/showdocument.aspx?documentid=6674">http://www.sfport.com/modules/showdocument.aspx?documentid=6674</a> Exhibits: <a href="http://www.sfport.com/modules/showdocument.aspx?documentid=6675">http://www.sfport.com/modules/showdocument.aspx?documentid=6675</a>

## **Board of Supervisors Amendments**

The terms endorsed by the Port Commission in the Revised Term Sheet were amended as follows during Board of Supervisors consideration of the Revised Term Sheet, subject to approval by the Port Commission (where applicable):

- The responsibility for the City's transferable option to acquire the Hoedown Yard for resale to generate proceeds for the Potrero Terrace and Annex HOPE VI Project was shifted from the Office of Economic and Workforce Development to the Real Estate Division of the General Services Agency;
- The Board of Supervisors must approve of the acquisition of the Hoedown Yard by a City department or authorize the sale of the option to acquire the Hoedown Yard to a third party developer;
- The Real Estate Division must conduct a competitive process to dispose of the Hoedown Yard to a third party developer;
- In the event of a sale of the Hoedown Yard to a third party developer, the City may not have any liability exposure in connection with that sale or subsequent uses of the property; and
- The proposal to use Infrastructure Financing District proceeds from the future development of the Hoedown Yard, subject to future approval by the Board of Supervisors, to finance the screening or enclosure of the PG&E Potrero 115 kV Switchyard in the event that electricity rate funding is not available for this purpose was eliminated.

Port staff and PG&E have negotiated the final proposed agreements consistent with this policy direction.

## **Proposed Terms**

The parties agreed to a prepaid rent structure based on two appraisals of nearby upland industrial land and a formula to adjust for submerged land and a combination of exclusive and compatible use zones more fully described in Exhibit F. The prepaid rent for the initial forty (40) year term of the agreement utilizes a 6.5% discount rate, which is the estimated blended average of the Port's costs of funds. The prepaid rent will be paid by PG&E over two installments: 1) \$7,637,602.68 on the License effective date, and 2) \$7,637,602.68 before the later of (a) the CPUC's issuance of a Full Notice to Proceed and (b) January 1, 2015.

The following are the other terms for the proposed non-exclusive license, a copy of which is on file with the Port Commission Secretary:

<b>Table 1: License 15762 Terms</b>	
<b>Term</b>	<b>Description</b>
License Area	<p>Approximately (i) 435,600 square feet of submerged land between Pier 28½ and the foot of 23rd Street, (ii) 52,272 square feet of underground access for horizontal directional drilling and (iii) 21,120 square feet of land along 23<sup>rd</sup> Street.</p> <p>The submerged area is divided into the Submarine Portion Exclusive Zone (1 foot width on either side of the centerline of each of three cables) and the Submarine Portion Compatible Use Zone (4.5 foot width extending beyond the Submarine Portion Exclusive Zone on each side of each cable).</p>
Term	40 years and one 26 year PG&E option to renew
Pre-Paid Rent	<p>Two equal installments: (1) the first to be paid no later than the Effective Date (payment of \$7,637,602.68); AND (2) the second to be paid on or before the later of (a) the CPUC's issuance of a Full Notice to Proceed and (b) January 1, 2015 (payment of \$7,637,602.67).</p> <p>The pre-paid rent is calculated based on the appraisals and methodology described in Exhibit F.</p>
Option Period Rent (for 26 years after 1 <sup>st</sup> 40 years)	<p>Fair Market Value ("FMV") rent, paid either annually or prepaid (at PG&amp;E's option), with rent determined by appraisal. If rent is prepaid for the 26 year option period, the FMV rent will be determined by appraisal, using the same formulas used to establish the initial rent, including an 8% capitalization rate and a discount rate set at the average of the Port's future taxable and tax-exempt bond interest rates.</p> <p>The appraisal process to determine FMV rent includes a baseball arbitration appraisal process, with two initial appraisals and a 3<sup>rd</sup> appraisal to resolve the process, if needed.</p>
Permitted Uses	<p>(a) Constructing, operating and maintaining the Project, together with all necessary transmission line, fiber optic lines, ductwork, conduit, anchoring foundations and related equipment for use in connection therewith (collectively, the "ZA-1 Line Equipment"), including the right to excavate, repair, reconstruct, replace within the License Area, and remove such ZA-1 Line Equipment, for the purpose of transmission, transportation and/or distribution of electric energy and communications between Licensee's Embarcadero Substation and Potrero Substation in San Francisco; and (b) licensing the unused capacity of the ZA-1 Line with third parties, including any Affiliate of PG&amp;E. All Permitted Uses are subject to Port permitting where required.</p>
Security	<p>\$384,698.86 cash or letter of credit security deposit, refundable when PG&amp;E pays the second installment of the prepaid license fee, AND 1/6<sup>th</sup> of the Extension Term License Fee that would be due in the last (26th) year of the Extension Term (waived if PG&amp;E elects to pre-pay the option period license fee)</p>
Environmental Security	<p>\$10,000 cash Environmental Oversight Deposit for the recovery of Port's costs and expenses related to the increased inspection, monitoring, enforcement and administration of the License</p> <p>Environmental assurances deposit in the form of an irrevocable standby letter of credit equaling \$6,000,000:</p> <p>(i) \$5,000,000 used for Claims due to any requirement of a Regulatory</p>

**Table 1: License 15762 Terms**

Term	Description
	<p>Agency for Investigation/Remediation of Hazardous Materials arising from Licensee's or its Agents' discovery of preexisting contamination to be released 12 months after data is submitted to the Regional Water Quality Control Board subject to conditions set forth in the License AND</p> <p>(ii) \$1,000,000 for the full and faithful performance by Licensee of its obligations with respect to Hazardous Materials.</p>
<p>Limitations on Other Uses of License Area</p>	<p>Port shall obtain Licensee's reasonable, written consent to:</p> <ul style="list-style-type: none"> <li>(i) Permit uses that penetrate the Bay mud surface in the Submarine Portion Exclusive Zone.</li> <li>(ii) Permit a lateral crossing through the License Area. If lateral crossings are allowed, Port shall require that such crossings be no closer than five (5) vertical feet from the ZA-1 Line Equipment and be equipped with thermal and mechanical protection.</li> <li>(iii) In the Compatible Use Zone of the submarine portion, permit other underground or submarine electric lines.</li> <li>(iv) With respect to any Horizontal Directional Drilling Area: <ul style="list-style-type: none"> <li>(1) <u>allow piles to be installed to the bedrock in the area north and east of Pier 30 to support maintenance and facilitate use and development of Piers 30/32; provided that to the extent that Licensee provides such consent, Licensee and Port will cooperate in good faith to identify installation specifications to adequately protect the ZA-1 Equipment;</u></li> <li>(2) <u>license, lease or otherwise permit in writing construction of solder piles, piers, pilings, foundations, or other permanent improvements in any other HDD Area.</u></li> </ul> </li> <li>(v) Dredging: <ul style="list-style-type: none"> <li>(1) Permit any dredging in the submarine portions of the License Area;</li> <li>(2) In the area north and east of Piers 30-32, Port may be permitted to dredge up to a depth of forty feet (40') below mean lower low water if Port reasonably determines dredging to such depth is required to support or advance maritime operations and use within Port jurisdiction, provided that in no event shall Port dredge within five (5) vertical feet of the ZA-1 Line Equipment.</li> </ul> </li> <li>(vi) Port will cooperate with Licensee to have the License Area designated as a no anchoring area by the US Coast Guard.</li> </ul> <p>If Licensee denies consent, Port may seek CPUC approval to allow the activity or to allow the proposed facilities to be co-located in the License Area, which approval would supersede Licensee's denial.</p> <p>Licensee will ensure that the License Area is depicted on all official navigation maps as a "no anchoring" area.</p>
<p>Required Removal or Relocation of ZA-1 Line</p>	<p>Licensee agrees that it will remove or relocate without expense to Port or City any ZA-1 Line Equipment by any lawful change of grade, alignment or width of any street or right of way, or, if such removal or relocation is made necessary by any work to be performed under the governmental authority of Port or the City.</p> <p>Licensee and the Port/City will use commercially reasonable efforts to facilitate the design of any Port or City project requiring such removal or relocation to minimize time and expense to both Parties. The Parties will negotiate in good faith to amend this License to reflect the new License</p>

<b>Table 1: License 15762 Terms</b>	
<b>Term</b>	<b>Description</b>
	Area and any associated fees. If the ZA-1 Line cannot legally be moved or the Port or City can reasonably redesign or reroute a Port or City project at a lower cost than moving the ZA-1 Line, Port and Licensee will negotiate to allow the Port or City to proceed in an alternative manner acceptable to all Parties, conditioned on Licensee bearing the incremental costs of the City/Port alternative (where incremental means the difference between the Port's/City original conflicting design and the Port's/City alternative design).
Potrero Switchyard Screening	Within 10 years after executing the ZA-1 License, the City may designate its preference ("Preferred Screen") for 1) enclosing the Potrero Switchyard in a building, or 2) surrounding a significant portion of the Potrero Switchyard with a perimeter screen performed at PG&E's cost. PG&E will use commercially reasonable efforts to obtain rate reimbursement and other approvals required for these improvements.
Sales and Use Tax	City shall be entitled to receive applicable sales and use taxes ordinarily payable under Law. Licensee shall use its best commercially reasonable efforts to have the City and County of San Francisco realize sales and use taxes as to the Project in San Francisco, including all of its components.

**Potrero Switchyard Screening**

As described in the September 6, 2013 Port Commission staff report, the screening or enclosure of the existing 115 kV Potrero Switchyard is critical to support planned growth at the Pier 70 and NRG<sup>5</sup> sites in the Central Waterfront, a Priority Development Area. The License requires PG&E to obtain the approvals for and construct screening (or otherwise enclose) the Potrero Switchyard as a public benefit of the ZA-1 Transmission Line.

Within 10 years after executing the ZA-1 license, the City may designate its Preferred Screen (either enclosing the Switchyard in a building or constructing a perimeter screen). Following this notice, PG&E will apply for any required rate-reimbursement, commence any required CEQA review and apply for any other required permits for the Preferred Screen. The conceptual design for the Preferred Screen will include architectural and aesthetic qualities consistent with PG&E's customary protocols for screening dense urban substation facilities, subject to review by the Port's Waterfront Design Advisory Committee. Subject to force majeure events, or its failure to obtain required approvals, PG&E shall complete construction of the approved Revised Screen Design no later than five (5) years after the City presents the notice of its Preferred Screen.

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<sup>5</sup> The NRG site is a 23 acre parcel immediately to the south of Pier 70 which was the site of the former Potrero Power Plant which closed in January 2011.

The Revised Term Sheet previously contemplated that infrastructure financing district proceeds from future development of the Hoedown Yard, subject to Board of Supervisors approval, could be a source to partially fund the Preferred Screen, if rate funding was insufficient. The Board of Supervisors was not supportive of this concept, so it has not been included in the agreement.

### **Southern Waterfront Community Benefits**

City staff believes that the ZA-1 project provides critical transmission reliability benefits to the City. In addition, the City option to acquire the Hoedown Yard and the PG&E obligation to screen the Potrero Switchyard as described above are major public benefits of the proposed project which will benefit the Southern Waterfront community and increase the value of Port property.

The proposed License is subject to the Port's Southern Waterfront Community Benefits Policy. As such, Port staff will set aside 8% of project rents to the Southern Waterfront Community Benefit Fund ("Fund"), or \$1,222,016. The Fund is used to pay for open space and related public improvements in the Southern Waterfront. Expenditures from the fund are subject to Port Commission approval. As a condition of the License, PG&E has also agreed to construction of a sidewalk and related right of way improvements on 23rd Street adjacent to the Potrero Switchyard.

PG&E has negotiated a voluntary Local Hire agreement with the Office of Economic and Workforce Development which includes the following provisions:

- PG&E contractors will use their best efforts to utilize individuals from the CityBuild<sup>6</sup> program;
- PG&E Contractors will use good faith efforts to meet a San Francisco local hiring goal of 30% or more for project laborer positions;
- PG&E will work with Contractors to identify required certifications and training for employment of workers and assist in providing required training; and
- CityBuild will identify key staff as liaisons to the Project and as a referral agency to provide referrals of qualified economically disadvantaged individuals for employment on the Project.

### **Projected Ratepayer Impacts within CAISO Grid**

The cost of transmission lines constructed within the Control Area of CAISO is shared by electricity ratepayers in California. The CAISO Control Area generally includes

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<sup>6</sup> CityBuild is an employment program in the Office of Economic and Workforce Development ("OEWD"). CityBuild provides workforce training and job placement services to San Francisco residents in the construction industry.

PG&E Territory, Southern California Edison (SCE) Territory, San Diego Gas & Electric (SDG&E) Territory and other metered subsystems.

Based on a project cost of \$197 million, including contingency, PG&E projects that the Project will increase the average bundled retail electric bills by no more than a few cents per month. PG&E currently projects that the Project will generate approximately \$4.2 million in sales taxes to the City over the two year construction period.

### **Project Schedule**

PG&E is pursuing the following Project schedule:

- Building Construction and Equipment Installation: June 2014 – Feb. 2016
- Onshore Infrastructure Construction (including HDD): Aug. 2014 – Aug. 2015
- Offshore Cable Laying: June 2015 – Aug. 2015
- Cable in Service: April 2016

## II. Hoedown Yard Option

As a condition of the license, City staff has negotiated a transferable Real Estate Division option to acquire the PG&E Hoedown Yard, which includes a portion of Irish Hill (“Hoedown Yard Option Agreement”), adjoining Pier 70. The Port of San Francisco is not a party to the Hoedown Yard Option Agreement and the agreement and its companion form of purchase and sale agreement (“Purchase and Sale Agreement”) are not subject to Port Commission approval. However, given the proximity of the Hoedown Yard to Pier 70, Port staff has participated in the discussions between the parties. A map of the Hoedown Yard is attached as Exhibit B.

While the Port will not own the Hoedown Yard Option Agreement, a description of current site conditions and the Option are included in this report in order to provide a complete record of the ZA-1 Project transaction between the City and PG&E.

Current uses at the Hoedown Yard include parking, equipment storage, stockpiling and temporary storage of drilling mud, concrete, soil, sand, gravel and asphalt associated with PG&E utility projects. Relocation of these functions from the Hoedown Yard will enhance the Port’s efforts to revitalize Pier 70<sup>7</sup>. Exhibit G shows the proximity of the Hoedown Yard to Pier 70.

The City option to purchase the Hoedown Yard is transferable, allowing the City to transfer this purchase right to a private entity. Since the Hoedown Yard is an asset of a regulated utility, PG&E’s sale of the Hoedown Yard is subject to CPUC approval pursuant to Section 851 of the California Public Utilities Code, unless PG&E is able to relocate these activities before the City exercises the option.

Not unlike the surrounding Pier 70 area, the Hoedown Yard contains known contamination. PG&E has completed site investigation and a human health risk assessment. The findings of this assessment indicate that arsenic is present in soil within an approximately 20,000 sf (by approx. 5 ft. deep) area in the northwest corner of the site at concentrations that pose a potential human health risk to future construction workers upon disturbance of the soil (not to current or future commercial/industrial workers). All other contaminants investigated exist at concentrations below levels of concern. The Port and City do not, and will not, bear any responsibility for existing contamination or the environmental risk exposure of future uses on the site.

The San Francisco Bay Regional Water Quality Control Board (“Water Board”) has approved PG&E’s investigations and agrees that no remediation is warranted under

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<sup>7</sup> On May 28, 2013, the Port Commission approved Resolution 13-20 endorsing a Term Sheet between the Port and Forest City Development California, Inc. (“Forest City”) for the mixed-use development of the Pier 70 Waterfront Site, bordered generally by 20<sup>th</sup> Street, Michigan Street, 22<sup>nd</sup> Street, and the San Francisco Bay, shown in Exhibit G. The Term Sheet was subsequently endorsed by the Board of Supervisors on June 11, 2013. City staff, including Port staff, and Forest City continue to pursue entitlement of the Pier 70 Waterfront Site.

current or anticipated future conditions, provided that activities at the site comply with an approved Site Management Plan (“SMP”) and land use is restricted to commercial/industrial uses through a deed restriction recorded by the Water Board.

PG&E has developed and Water Board has approved a SMP for the Hoedown Yard. The SMP specifies measures to protect workers, minimize dust, prevent contamination of stormwater, and other measures to manage potential risks from soil contamination.

Port environmental staff also has reviewed the SMP and the Water Board deed restriction and believe that Hoedown Yard site conditions are suitable for future commercial or industrial use. If a third-party developer desires to acquire the City’s option for the site for residential purposes, further remedial actions (such as removal or capping of arsenic-contaminated soil) would likely be required, along with approval of the Water Board to lift the deed restriction.

Pursuant to the Port’s Waterfront Site Term Sheet with Forest City, Forest City will include the Hoedown Yard in the proposed Special Use District (“SUD”) for the Waterfront Site for purposes of rezoning and design for development controls. The SUD is expected to be ready for consideration by the Planning Commission and the Board of Supervisors by mid-2016, after environmental review of the Waterfront Site mixed use development is complete, which means that the Hoedown Yard would be rezoned and ready for sale to a third-party within that timeframe, subject to required regulatory approvals. PG&E has authorized the City and Forest City to pursue this rezoning. Port staff will continue to monitor the Real Estate Division’s activities with respect to the Hoedown Yard.

Based on preliminary analysis – subject to change depending on market factors and site specific development risks – Port staff estimates that the difference between the as-is purchase price of the Hoedown Yard and its future rezoned value for residential use could be in excess of \$20 million. The City will continue to examine the highest and best use of the Hoedown Yard during development of the Waterfront Site SUD and associated environmental review. The range of permissible future uses of the Hoedown Yard will ultimately be decided by the Planning Commission and the Board of Supervisors.

Subject to approval by the Board of Supervisors, the Director of Real Estate will conduct a competitive process to sell its option to purchase the Hoedown Yard. Unless the City opts to acquire the Hoedown Yard for its own use, City staff expects that the City will not be in the chain of title for the site. The City intends to designate any net proceeds of its sale price to a third-party developer based on its rezoned value as a source of funds for the Potrero Terrace and Annex HOPE VI project, a major priority of Mayor Edwin Lee. For more information about this project, see <http://www.rebuildpotrero.com/>.

<b>Table 2: Hoedown Yard Option Agreement and Purchase and Sale Agreement</b>	
<b>Term</b>	<b>Description</b>
Premises	PG&E parcels Block 4110 (Lot 008A) and Block 4120 (Lot 002), 130,600 sf of industrial land at Illinois and 22 <sup>nd</sup> Street (see Exhibit B)
Purchase Price	\$8,315,302 (\$63.37 per square foot)
Term	City or its transferee may exercise the Option by delivering written notice to PG&E on or before December 31, 2019
Section 851 Order	Unless PG&E relocates its current Hoedown Yard operations in advance of the City's exercise of the Option, the CPUC will need to approve a Section 851 Order to allow PG&E to sell the property
Environmental Provisions	<ul style="list-style-type: none"> <li>• Certain uses on the Hoedown Yard will be prohibited, including school, daycare and hospital uses and ground floor private open space;</li> <li>• High density residential, office and public open space will be permitted, subject to a modification to the Water Board's deed restriction;</li> <li>• The ultimate buyer of the Hoedown Yard will clean up the arsenic in the northwest corner of the site and indemnify and hold harmless PG&amp;E from liability, including liability for personal injury, property damage, or further cleanup, during and after the construction of any new uses on the Hoedown Yard;</li> <li>• The owner of the Hoedown Yard or its agent will supply a \$1 million letter of credit to PG&amp;E to back its indemnity until 3 years after Certificate of Occupancy;</li> <li>• Construction on site will comply with a risk management plan and defined institutional controls, such as use of 3' feet of clean soil and a demarcation layer above native soil in soft scaped areas such as public open space; and</li> <li>• The property owner/operator will notify all residents of site conditions and tenants and contractors of site conditions and required institutional controls and require notification of subtenants and subcontractors.</li> </ul> <p>Exhibit H to this staff report details the environmental risk management measures negotiated between City staff and PG&amp;E related to future development on the Hoedown Yard.</p>

The Hoedown Yard Option Agreement and the form of Purchase and Sale Agreement are subject to approval by the Board of Supervisors concurrent with the License. No action by the Port Commission is requested for this part of the agreement with PG&E.

## Recommendation

Port staff recommends approval of the attached resolution which approves License 15762 between the Port and PG&E, subject to approval by the Board of Supervisors and authorizes the Executive Director to enter into the License. If the Port Commission approves the resolution, Port staff proposes the following next steps:

1. Port staff will submit the License and the Real Estate Division will submit Hoedown Yard Option Agreement and form of Purchase and Sale Agreement to the Board of Supervisors for its consideration;
2. If approved, the Port Executive Director will execute the License and the City Director of Real Estate will execute the Hoedown Yard Option Agreement;
3. Port staff will coordinate with the Planning Director to provide notice to PG&E of the City's Preferred Screen for the Potrero Switchyard; and
4. Port and OEWD staff will collaborate with Forest City California to entitle the Hoedown Yard for its highest and best use as part of broader Pier 70 Waterfront Site entitlement efforts.

Prepared by: Brad Benson, Director of Special Projects

For: Monique Moyer, Executive Director

## Exhibits

- A. Premises
- B. Hoedown Yard
- C. PG&E Embarcadero Substation Service Area Map
- D. CPUC Findings from Decision Granting Certificate of Public Convenience and Necessity
- E. CPUC Adopted Mitigation Measures
- F. Hoedown Yard Appraisal Process and Valuation of Submerged Land
- G. Pier 70 Waterfront Site Conceptual Land Use Plan
- H. Hoedown Yard Environmental Risk Management Measures (City-PG&E Option Agreement)

**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 14-43**

- WHEREAS, California Statutes of 1968, Chapter 1333 (the "Burton Act") and the San Francisco Charter Section B3.581 empower the San Francisco Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the lands within Port Commission jurisdiction; and
- WHEREAS, Pacific Gas & Electric ("PG&E") proposes to construct a new, single circuit, 230 kV transmission line between its Embarcadero Substation and its Potrero Substation, along onshore and submerged land in the Port's jurisdiction generally within the area bounded by Pier 28 ½ and portions of the shoreline at the foot of 23rd Street (the "Project"), to increase reliability of electric service to downtown San Francisco and provide operational flexibility, as further described in the staff report accompanying this resolution; and
- WHEREAS, At the Port Commission's August 14, 2012 meeting, an informational presentation about the Project was made by Port staff and Port staff was directed to negotiate a term sheet for use of Port lands for the Project; and
- WHEREAS, At its November 13, 2012 meeting, the Port Commission approved Resolution 12-90, endorsing the ZA-1 Embarcadero-Potrero 230kV Transmission Project Term Sheet ("Original Term Sheet") between the Port and PG&E and authorizing Port staff to enter into a Negotiation Agreement with PG&E, related to onshore and submerged Port land between Pier 28½ and the foot of 23rd Street and PG&E parcels Block 4110 (Lot 008A) and Block 4120 (Lot 002), commonly known as the "Hoedown Yard"; and
- WHEREAS, At its September 10, 2013 meeting, the Port Commission approved Resolution 13-34 endorsing the Revised ZA-1 Embarcadero-Potrero 230kV Transmission Project Term Sheet ("Revised Term Sheet") between the Port and PG&E related to onshore and submerged Port land, including approximately 435,600 square feet of submerged land between Pier 28½ and the foot of 23rd Street, 52,272 square feet of underground access for horizontal directional drilling and 21,120 square feet of land along 23<sup>rd</sup> Street, as shown on Exhibit A (the "Premises") and an option to acquire the Hoedown Yard (the "Hoedown Yard Option Agreement"); and
- WHEREAS, The California Public Utility Commission's ("CPUC") Energy Division staff issued a draft Mitigated Negative Declaration ("MND") on August 13, 2013, notice of the draft MND was published in the San Francisco Examiner on August 18 and 19, 2013, and a public informational meeting was held on August 20, 2013, in San Francisco; and

WHEREAS, The CPUC Energy Division received public comments from the California Department of Fish and Wildlife, the San Francisco Bay Conservation Development Commission, the San Francisco Public Utilities Commission, two members of the public, and PG&E and responded to all of the comments in the final MND, which it issued on October 30, 2013; and

WHEREAS, Although a few revisions were made to clarify and revise the discussion and certain mitigation measures described in the MND, the final MND does not identify any new significant environmental impacts, and does not omit any existing mitigation measures, from those identified in the draft MND; and

WHEREAS, On January 16, 2014, the California Public Utilities Commission ("CPUC"), as lead agency, certified the Mitigated Negative Declaration ("MND") and issued a Certificate of Public Convenience and Necessity for the Project by Decision No. 14-01-07; and

WHEREAS, On March 5, 2014, pursuant to Resolution No. 54-14, the Board of Supervisors endorsed the Revised Term Sheet, subject to several changes to the proposed Hoedown Yard Option Agreement, which will be executed by the Department of Real Estate; and

WHEREAS, Port and City staff have negotiated License 15762 (the "License") and the City's Hoedown Yard Option Agreement and form of purchase and sale agreement (the "Purchase and Sale Agreement") consistent with the terms of Port Commission Resolution 13-34 and Board of Supervisors Resolution 54-14, as described in the staff report accompanying this resolution, copies of which are on file with the Port Commission Secretary; and

WHEREAS, The Port Commission is not a party to the City's Hoedown Yard Option Agreement and form of Purchase and Sale Agreement, and is not responsible for current or future uses of the site; and

WHEREAS, All applicable mitigation measures from the CPUC MND (as shown in Exhibit E of the accompanying staff report) have been incorporated into the proposed Project, the Port Commission has imposed them as conditions of approval, and the Port will receive copies of all mitigation monitoring reports to the CPUC; now, therefore, be it

RESOLVED, That the Port Commission adopts and incorporates by reference as though fully set forth herein the mitigation measures for the project described in Exhibit E of the accompanying staff report; and, be it further

RESOLVED, That subject to approval by the Board of Supervisors, the Port Commission authorizes and directs the Executive Director of the Port ("Executive Director") to execute the License, in substantially the form on file with the Port Commission Secretary, and in such final form as is

approved by the Executive Director in consultation with the City Attorney;  
and, be it further

RESOLVED, That the Port Commission authorizes the Executive Director to enter into other agreements, encroachment permits, and easement agreements necessary to implement the project contemplated by the License, and to enter into any additions, amendments or other modifications to the License, including preparation and attachment of, or changes to, any or all of the attachments and exhibits that the Executive Director, in consultation with the City Attorney, determines are in the best interests of the City or Port, do not materially decrease the benefits or otherwise materially increase the obligations or liabilities of the City or Port, and are necessary or advisable to enable PG&E to complete the project that the License contemplates and effectuates the purpose and intent of this resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of such other agreements, easement agreements and/or additions, amendments or other modifications to the License.

***I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of June 10, 2014.***

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Secretary