

MEMORANDUM

November 8, 2012

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

FROM: Monique Moyer
Executive Director

SUBJECT: Request approval of the PG&E ZA-1 Embarcadero-Potrero 230kV Transmission Project Term Sheet and authorization to enter into a Negotiation Agreement with 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)

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

Introduction

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 ("ZA-1Project"). One of the proposed routes for the proposed project contemplates transmission line installation along submerged land in the Port's jurisdiction, subject to the Port's proprietary approval. On August 14, 2012, Port staff and representatives of PG&E delivered an informational presentation to the Port Commission describing the proposed project. Exhibits A and B to this staff report show the existing map of the Embarcadero and Potrero Substations, and the proposed route for the submarine alternative for the project along Port submerged land.

The attached resolution requests (i) approval of a term sheet attached as Exhibit C to this staff report ("Term Sheet") outlining the basic terms between the City and County, acting through the Port Commission, and PG&E for use of Port lands by PG&E for the proposed submarine route and (ii) authorization of the Port Executive Director to enter into the negotiations agreement, as further described below, with PG&E. If the Port Commission approves the resolution, PG&E will submit an application to the California Public Utilities Commission ("CPUC") to commence a public process to review the

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cost-effectiveness and environmental impacts of the submarine route, subject to other required proprietary and regulatory approvals, including approval by the Federal Energy Regulatory Commission (“FERC”) and the California Independent System Operator (“CAISO”).

As further described in this report, the Term Sheet contemplates a long-term, non-exclusive license to construct and operate the ZA-1 Project and a Port option to purchase PG&E-owned land at Illinois and 22nd Streets.

Project Description

The proposed Embarcadero-Potrero cable, also referred to as ZA-1, would provide a third cable into Embarcadero Substation. Seismic risk is a key consideration in its design and routing. If approved, ZA-1 also will connect PG&E’s 230 kV system in San Francisco with both the Trans Bay Cable (“TBC”) ¹ 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:

- Construct an approximately 3-mile, 230 kV submarine and/or underground cable between the Embarcadero and Potrero Substations;
- Terminate the new cable into a 230 kV bus (to be upgraded as part of a separate reliability project that is underway) at the Embarcadero Substation; and
- Construct a new 230 kV switchyard at Potrero Substation, 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 would run in a reinforced underground duct bank about 2 city blocks along the TBC alignment as it exits the Potrero Switchyard and enters the Bay. It would 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 Embarcadero Substation, where it would 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.

Negotiation Agreement

Port staff and representatives of PG&E have negotiated a negotiation agreement (“Negotiation Agreement”), a copy of which is on file with the Port Commission

¹ On August 7, 2007, by Resolution 414-07, the San Francisco Board of Supervisors approved a 66 year license for the construction and operation of the Trans Bay Cable on Port submerged land.

Secretary. Under the Negotiation Agreement, PG&E is responsible for obtaining all regulatory approvals for the Project and will pay expenses reasonably incurred by Port directly and solely related to the Project for, including, but not limited to, time spent on the Project by Port staff, the services of real estate and economic consultants, and legal services. PG&E will also pay Port's costs for legal services associated with the Project that were incurred prior to the execution of the Negotiating Agreement.

Appraisal

To calculate the value of the license area, and for purposes of the option to acquire the Hoedown Yard, Port staff commissioned an appraisal through the Department of Real Estate's as-need appraiser pool. The City selected Associated Right of Way Services, Inc. to conduct the appraisal, and PG&E concurred with the selection. Appraisal instructions were to determine:

- (a) the fee simple value of the Site assuming raw clean undeveloped land subject only to current zoning (M-2) i.e. market value; and
- (b) the fee simple value of the Site "AS-IS" with all faults using assumptions as to the cost of compliance with the Site Management Plan and any other documents provided ... that affect value.

The conclusions of this appraisal will be presented in a November 23, 2012 final appraisal report, done in compliance with Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP).

The approach to establishing rent for the submerged license area is based on industrial upland values. The process for valuing the Hoedown Yard requires the same analysis. City staff and PG&E representatives therefore agreed to use a single appraisal (using the same set of comparable land values) for purposes of valuing both the submerged license area and the Hoedown Yard.

For purposes of the Term Sheet negotiation, City staff and representatives of PG&E assume a potential range of land value \$50-75 per square foot, which has been used to calculate the indicated range of rent for the submerged license area and the range of option sales prices for the Hoedown Yard. The appraisal will be finalized on November 23, 2012. Any modifications to industrial upland land value in the final appraisal will be reflected in the Term Sheet. Prices will be indexed annually by 3% until the parties enter any final transaction.

Proposed Terms

Port staff and representatives of PG&E have negotiated a Term Sheet for the project. The following are the high-level terms for the proposed non-exclusive license, which are provided in greater detail in Exhibit C:

License Area: 508,992 s.f. of underground and submerged land, generally along the route depicted in Exhibit B

<u>Term:</u>	40 years, with a 4 year reduced rent construction period, and one 26 year option to renew
<u>Annual Rent:</u>	\$583,248 - \$872,328 annually in 2012 dollars (depending on the final appraised value of industrial land), subject to increases
<u>Port Option:</u>	Purchase PG&E Hoedown Yard near Pier 70 at Fair Market Value assuming current industrial M-2 zoning, estimated at \$6.5 - \$9.8 million

Option to Acquire the Hoedown Yard

As a condition of the license, Port staff has negotiated a transferable Port option to acquire the PG&E Hoedown Yard at Pier 70. A map of the Hoedown Yard is attached as Exhibit D. Current uses at the Hoedown Yard include recycling of excavated soils from PG&E trenching projects. While this use is an important function, it represents a fundamental land use conflict with the Port's planned development efforts at Pier 70. The Hoedown Yard is located at Illinois Street and 23rd Street. Port staff expects that 23rd Street will be a major entry to the Pier 70 Waterfront Site² and that relocation of the Hoedown Yard is a necessary step to attract private investment to the Waterfront Site.

The proposed Port option to purchase the Hoedown Yard is transferable, allowing the Port to transfer this purchase right to another entity, if the Port Commission so desires. As negotiations related to the Project continue, Port staff will work to evaluate potential relocation options on Port land for Hoedown Yard activities.

Not unlike the surrounding Pier 70 area, the Hoedown Yard has known contamination. PG&E has completed site investigation and human health risk assessment. The findings of this assessment indicate that arsenic is present in soil within an approximately 20,000 sq. ft. (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 (not to current or future commercial/industrial workers). All other contaminants investigated are at concentrations below levels of concern.

The San Francisco Bay Regional Water Quality Control Board ("Water Board") has approved these investigations and agrees that no remediation is warranted under current or anticipated future conditions, provided that activities at the site comply with a Site Management Plan ("SMP") and land use is restricted to commercial/industrial uses through a deed restriction.

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. PG&E has also filed a deed restriction limiting future uses of the site to commercial and industrial uses.

² City staff is currently negotiating the development of the 25 acre Pier 70 Waterfront Site with Forest City California, Inc.

Port environmental staff has reviewed the SMP and the deed restriction and has found that Hoedown Yard site conditions are suitable for future commercial or industrial use. If the Port Commission desires to acquire the site for residential purposes, further remedial actions (such as removal or capping of arsenic-contaminated soil) would likely be required. Port staff will continue to monitor site conditions and regulatory restrictions related to the Hoedown Yard as the proposed ZA-1 project negotiation proceeds.

Port Commission acquisition of the Hoedown Yard would be subject to review under the California Environmental Quality Act, and approval by the Mayor and the Board of Supervisors.

Additional Public Benefits

City staff believes that the ZA-1 project provides critical transmission reliability benefits to the City.

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 \$46,700 - \$69,800 annually for years (depending on the final license rent). The Fund is used to pay for open space and related public improvements in the Southern Waterfront.

Project Schedule

PG&E is pursuing the following Project schedule:

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|--------------------------------|-------------------------------|
| 1. Initiate CPUC Application | November 2012 |
| 2. CPUC CEQA Review | November 2012 – November 2013 |
| 3. Resource agency permits | December 2013 – January 2014 |
| 4. Onshore cable installation | December 2013 – May 2015 |
| 5. Offshore cable installation | May 2015 – November 2015 |
| 6. Operation | December 2015 |

Recommendation and Next Steps

Port staff recommends approval of the attached resolution which approves the Term Sheet and authorizes the Executive Director to enter into the Negotiation Agreement. If the Port Commission approves the resolution, Port staff proposes the following next steps:

- Negotiate a non-exclusive license for use of submerged Port land for the ZA-1 230 kV Embarcadero-Potrero Transmission Line with PG&E consistent with the Term Sheet;

- Review and comment on environmental analysis conducted by the CPUC regarding routes that involve Port property, in consultation with other City departments;
- Further evaluate the development potential of the Hoedown Yard, in consultation with the Port's Pier 70 development partners;
- Examine potential locations on Port property that may be suitable for the PG&E operations currently conducted at the Hoedown Yard; and
- If the CPUC process determines that the submerged alternative is the preferred project alternative, submit for Port Commission and Board of Supervisors consideration a long-term license for construction and operation of the project.

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For: Monique Moyer, Executive Director
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Planning & Development

Exhibits

- A. PG&E Embarcadero Substation Area Map
- B. PG&E Route Alternatives for Proposed ZA-1 Project
- C. Term Sheet
- D. Hoedown Yard Map

Exhibit A: PG&E Embarcadero Substation Area Map

Exhibit B: PG&E Route Alternatives for Proposed ZA-1 Project

Exhibit C: Term Sheet

Exhibit D: Hoedown Yard Map

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 12-90**

- 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, Port staff and PG&E have negotiated a term sheet, attached as Exhibit C to the staff report accompanying this resolution (the "Term Sheet"), which Term Sheet sets forth the essential terms upon which Port and PG&E will negotiate to reach agreement on the final transaction documents; and
- WHEREAS, Port staff and PG&E have also negotiated the terms of a negotiation agreement ("Negotiation Agreement") on file with the Port Commission Secretary, which among other things, provides for reimbursement by PG&E to Port of Port's costs associated with the Project, as further described in the staff report accompanying this resolution and the Negotiation Agreement; and
- WHEREAS, Because PG&E is a regulated utility, the Project is subject to the review and approval of the California Public Utilities Commission ("CPUC"); and
- WHEREAS, The parties acknowledge that the Term Sheet is not itself a binding agreement that commits the Port or PG&E to proceed with the approval or implementation of the Project and that the Project will first undergo appropriate environmental review under the California Environmental Quality Act ("CEQA") and will be subject to public review in accordance with the processes of the Port Commission, other City departments and offices, the CPUC, and other government agencies with approval rights over the Project before any entitlements and other regulatory approvals required for the Project will be considered; and now for be it

RESOLVED, That the Port Commission hereby approves the Term Sheet and the Negotiation Agreement and authorizes and directs the Executive Director of the Port, or her designee, to execute the Negotiation Agreement and work with PG&E to negotiate the terms and conditions of any license and related documents ("Transaction Documents") for use of Port lands for the Project, with the understanding that the final terms and conditions of the Transaction Documents negotiated between Port staff and PG&E will be subject to the approval of the Port Commission and as applicable, the Board of Supervisors and the Mayor; and, be it further

RESOLVED, That the Port Commission authorizes the Executive Director to enter into any additions, amendments or other modifications to the Term Sheet and the Negotiation Agreement that the Executive Director, in consultation with the City Attorney, determines are in the best interests of the City, 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 complete the transactions which the Term Sheet and the Negotiation Agreement contemplate and effectuate the purpose and intent of this resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of such additions, amendments or other modifications to the Term Sheet or Negotiation Agreement; and be it further

RESOLVED, That approval of the Term Sheet and entering into the Negotiation Agreement does not commit the Port Commission or the City to approval of final Transaction Documents or implementation of the Project or grant any entitlements to PG&E, nor does approving the Term Sheet or executing the Negotiation Agreement foreclose the possibility of considering alternatives to the proposal, mitigation measures or deciding not to grant entitlement or approve or implement the Project, after conducting appropriate environmental review under CEQA, and while the Term Sheet identifies certain essential terms of a proposed transaction with the Port, it does not necessarily set forth all of the material terms and conditions of any final transaction documents; and, be it further

RESOLVED, That the Port Commission will not take any discretionary actions committing the Port to implement the Project, and the provisions of the Term Sheet are not intended and will not become contractually binding on the Port unless and until the relevant bodies have reviewed and considered environmental documentation prepared in compliance with the CEQA for the Project and the Port Commission, and as applicable, the Board of Supervisors and the Mayor, have approved final Transaction Documents for the Project.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of November 13, 2012.

Secretary