

AGENDA REPORT

Resolution: Approving and Authorizing the Executive Director to Enter Into An Interconnection Agreement with the Pacific Gas and Electric Company for the Provision of Wholesale Transmission Service to the Port's Cuthbertson Substation.
(Engineering)

MEETING DATE: 7/12/2018

AMOUNT: Undetermined

PARTIES INVOLVED: Pacific Gas and Electric, San Francisco, CA,
Geisha Williams, Chief Executive Officer

SUBMITTED BY: Chris Chan, Director of Engineering

APPROVED BY: J. Christopher Lytle, Executive Director

ACTION TYPE: Resolution

EXECUTIVE SUMMARY

The Port owns two electrical substations that serve the electricity needs of many parts of the Maritime Area (Seaport): (i) Davis Substation, and (ii) Cuthbertson Substation. Electricity is transmitted to both substations through a single 115 KV transmission line originating from Pacific Gas and Electric ("PG&E's") Station C by 2nd and Jefferson Streets in the City of Oakland. The Port buys electricity for Davis Substation on the wholesale market but buys electricity for the Cuthbertson Substation from PG&E at PG&E's retail rates. The Port has long wanted to be able to buy electricity for Cuthbertson Substation on the wholesale market as well and has been negotiating with PG&E for the past 16 months for an interconnection agreement with appropriate terms and conditions to allow the Port to convert Cuthbertson Substation from a retail facility to a wholesale facility. Pursuant to negotiations facilitated by the Federal Energy Regulatory Commission ("FERC") staff, the Port and PG&E have negotiated an interconnection agreement that Port staff believe is suitable. Port staff therefore seek the Board's approval and authorization to execute an Interconnection Agreement with PG&E for the provision of wholesale transmission service to Cuthbertson Substation in the Seaport.

BACKGROUND

Electric service for the Seaport is currently provided in part by PG&E and in part by the Port. Those parts of the Seaport that were part of the former Navy Fleet Industrial Supply Center Oakland ("FISCO") and part of the former Oakland Army Base ("OAB") are served by the Port

in its capacity as an electric utility. To serve those areas, the Port buys electricity on the wholesale market, which is then transmitted to the Port's Davis Substation and distributed to Port tenants in the former FISCO and OAB areas on Port-owned electric distribution lines. Those portions of the Seaport that are comprised of what the Port currently refers to as Howard Terminal, the Roundhouse Area, the Matson Terminal, and the Outer Harbor area (including Berths 20/21 through Berth 24 and the TraPac and Everport terminals) are served primarily by PG&E. However, within the Outer Harbor Area, PG&E's electric service relies on a substantial electric distribution system owned and developed by the Port to deliver electricity to many parts of the Outer Harbor for shorepower and for the cranes in most of the Outer Harbor area. For those portions of the Outer Harbor area served by the Port's distribution system, PG&E transmits electricity to the Port at Cuthbertson Substation (which is situated right next to Davis Substation), and PG&E sells the electricity to the Port at PG&E's retail rates. From Cuthbertson Substation, the electricity is resold and distributed over the Port's distribution system to various Port tenants to provide power for many of the cranes and ships equipped for cold-ironing in the Outer Harbor area.

On December 9, 2016, the Board authorized staff to initiate discussions to convert the Cuthbertson Substation to a wholesale facility similar to the Davis Substation. In April 2017, the Port received the first draft of the interconnection agreement from PG&E. After direct negotiations between the Port and PG&E failed to produce an agreement that both parties could agree upon, PG&E unilaterally filed an unexecuted interconnection agreement at FERC on September 21, 2017. On February 15, 2018, FERC accepted the unexecuted interconnection agreement filed by PG&E for filing subject to final revisions to be agreed upon pursuant to FERC-supervised negotiations. On May 1, 2018 the unexecuted (but conditional) interconnection agreement went into effect allowing Cuthbertson Substation to be operated as a wholesale facility. Under FERC-supervised negotiations, Port and PG&E have reached a proposed settlement on the interconnection agreement subject to the Board's approval.

This agenda report seeks the Board's approval to enter into an Interconnection Agreement under a proposed settlement with PG&E to formalize the conversion of the Cuthbertson Substation from a retail facility served by PG&E to a wholesale facility served by the Port acting in its capacity as an electric utility, which would allow the Port to operate the Cuthbertson according to rules and procedures similar to those currently in effect for the Davis Substation.

ANALYSIS

Some of the key terms in the Interconnection Agreement are:

- 10 Year Term
- Port will be responsible for purchasing electricity and coordinating with the California Independent System Operator (CAISO) for the delivery of the electricity.
- Requirement that both parties operate in accordance with the applicable regulations/requirements and in accordance with "good utility practices".
- Requirement that both parties coordinate its operations and notify the other party in the event of a significant operational change or significant regulatory change. Some of these coordination efforts may require the Port to make certain improvements or

adjustments to its facilities, and some of these efforts may require one or both parties to perform certain types of studies. The coordination and the studies would be handled on a case by case basis.

- Requirement to increase Port's power factor to the CAISO standard. As a wholesale utility, the Port is required to maintain a higher power factor level than as a PG&E retail customer. The Interconnection Agreement provides 24 months for the Port to bring up the power factor level to the CAISO standard. This project is included in the FY 2018-19 budget and is anticipated to take between 18-24 months to complete.

The Port is already performing these functions for the Davis Substation and for the Airport so there are no significant operational impacts on the Port as a result of converting the Cuthbertson to a wholesale facility.

Converting the Cuthbertson Substation to a wholesale facility will allow the Port to realize substantial savings in its electricity costs, create opportunities for the Port to recover certain capital improvement and other costs, and improve the Port's ability to respond to its tenants' electricity needs.

Lower Electricity Costs

The Port has been purchasing electricity for Cuthbertson Substation from PG&E at PG&E's retail transmission rates since at least 1997. Between April 2017 and April 2018, the Port's tenants used approximately 12 million Kilowatt-Hours (kWhs) of electricity at a rate of approximately \$0.155 per kWh for a total cost of \$1,860,000. The Port's equivalent cost of purchasing electricity from the wholesale market is approximately \$0.08 per kWh or a cost of approximately \$960,000. The conversion of Cuthbertson Substation to a wholesale facility will result in an annual cost savings of approximately \$900,000. However, there is a possibility that PG&E may seek to impose certain on-going fees (called "Departing Load Charges" but referred to herein as "Exit Fees") for electrical loads that switched from PG&E retail service to a municipal service. This fee is approximately \$0.025 per kWh or equivalent of \$300,000 annually based on the current usage. If PG&E pursues Exit Fees from the Port, the Port's savings would be reduced to approximately \$600,000.

Staff recommends the Board adopt a resolution approving and authorizing the Executive Director to enter into an interconnection agreement with the Pacific Gas and Electric Company for the provision of wholesale transmission service to the Port's Cuthbertson Substation.

BUDGET & STAFFING

Staff included the assumption that the Cuthbertson Substation conversion occurs in FY2019 in the development of the electric utility revenue budget but not in the operating expense budget. Therefore, the proposed action will result in an estimated savings of \$600,000 in FY19 Maritime Operating Budget.

There is no staffing impact as a result of entering into this agreement.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters included in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

<https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

- Goal: Grow Net Revenue

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

SUSTAINABILITY

There are no sustainability opportunities applicable to the proposed Interconnection Agreement because the agreement is neither a proposed project, tenancy agreement or a tenant development.

ENVIRONMENTAL

The proposed approval to enter into an interconnection agreement with Pacific Gas & Electric is not a project for purposes of the California Environmental Quality Act (CEQA), pursuant to Section 15061.b.(3) of the CEQA Guidelines which states that CEQA applies only to projects which have the potential for causing a significant effect on the environment, where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Approval of the interconnection agreement not result in any effect on the environment as the proposed action is for wholesale transmission service at an existing substation which would not result in any physical changes to the environment.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)

This action is not subject to the Port's Owner Controlled Insurance Program (OCIP) as it is not a capital improvement construction project.

OPTIONS

Staff has identified the following options for the Board's consideration:

1. Adopt a resolution approving and authorizing the Executive Director to enter into an interconnection agreement with PG&E for the provision of wholesale transmission service to the Port's Cuthbertson Substation as agreed upon in the proposed settlement between the Port and PG&E. This is the recommended action.
2. Provide direction to Port staff to go back to continue negotiations with PG&E. Under this option, it is important to note that the Port has already received nearly all of the changes it has asked for. Going back to the negotiations would not be taken lightly by FERC's counsel and the FERC Judge.

RECOMMENDATION

Adopt a resolution approving and authorizing the Executive Director to enter into an interconnection agreement with the Pacific Gas and Electric Company for the provision of wholesale transmission service to the Port's Cuthbertson Substation, as set forth in the proposed settlement between the Port and PG&E.