



San Francisco
Water Power Sewer

Services of the San Francisco Public Utilities Commission

SAN FRANCISCO PUBLIC UTILITIES COMMISSION
City and County of San Francisco

Mark Farrell

Mayor

Minutes

SPECIAL MEETING

Budget Hearing #2

Thursday, January 25, 2018

(Approved February 13, 2018)

NOTE DIFFERENT TIME AND LOCATION

9:00 A.M.

525 Golden Gate Avenue, Second Floor
O'Shaughnessy Conference Rooms A, B, and C
San Francisco, CA 94102

Commissioners

Ike Kwon, President

Vince Courtney, Vice President

Ann Moller Caen

Anson Moran

Francesca Vietor

Harlan L. Kelly, Jr.

General Manager

Donna Hood

Secretary



For information, contact the Commission Secretary at 554-3165.
Minutes and other information are available on the SFPUC web site:

www.sfwater.org

1. Call to Order

President Kwon called the meeting to order at 9:16 AM.

2. Roll Call

Present: Kwon, Courtney, and Vietor

Excused: Caen and Moran

3. Summary of Budget Hearing #1 Questions

Eric Sandler, CFO and Assistant General Manager (AGM) Business Services, presented a summary of questions posed by the Commission at the January 18, 2018 Special Budget Hearing #2 and associated responses.

No public comment.

4. Public Hearing and discussion of the Proposed FY 2018-19 and FY 2019-20 Operating and Capital Budgets, the Proposed FY 2018-19 through FY 2027-28 Capital Plan, and the Proposed FY 2018-19 through FY 2027-28 Financial Plan for the San Francisco Public Utilities Commission:

A. Proposed Water Enterprise Budget, Capital and Financial Plans

i. FY 2018-19 and FY 2019-20 Operating Budget

ii. FY 2018-19 through FY 2027-28 Capital Plan, including the FY 2018-19 and FY 2019-20 Capital Budget

iii. FY 2018-19 through FY 2027-28 Financial Plan

Steve Ritchie, AGM Water, reviewed the Water Enterprise system overview map. He presented the Water Enterprise organizational chart and introduced management staff. He discussed Water System Level of Service (LOS) Goals and Objectives, which were adopted in 2008 and expanded in October 2017 and address drinking water quality, regional delivery reliability, regional seismic reliability, in-City seismic reliability, in-City delivery reliability, water supply, environmental stewardship, and sustainability.

Commissioner Vietor requested that a Climate Resilience heading be added to the LOS Goals and Objectives (to include flood and drought).

AGM Ritchie presented the following for the Water Enterprise:

Performance Metrics: (1) Achieve LOS Goals and Objectives; (2) Achieve a distribution main replacement of 15 miles per year; (3) Maintain dam safety compliance; and (4) Improve processing of new service installations.

Accomplishments: (1) Achieved successful Mountain Tunnel Shutdown; (2) Managed water quality challenges; (3) Commenced lead testing of schools with SFUSD; (4) Accomplished first phase of New Service Connection

Process Improvement Project, and (5) Completed construction of four San Francisco groundwater wells.

FY2019 & FY 2020 Biennial Budget Priorities: (1) *Improve business process management, particularly at City Distribution Division (CDD); (2) Catch-up on Water Supply and Treatment (WST) staffing support for Water System Improvement (WSIP) improvements; (3) Act on CDD staff recommendations for ergonomic improvements; and (4) Review water main replacement of 15 miles per year based on recent data review and lessons learned.*

AGM Ritchie responded to a question from Commissioner Vietor regarding groundwater wells. She requested a status update be provided to the Commission within in the next six months.

Mr. Ritchie discussed the main replacement shortfall and noted reasons for not meeting the goal (replacement cost per mile has increased; increased cost and volume of projects with other agencies in the lead; delays encountered in large multi-agency projects; and greater utilization of SFPUC staff time). He reviewed water main CDD replacement mileage,, historic and project rates; CDD annual water main replacement mileage; and estimated cost per mile.

AGM Ritchie responded to a question from Commissioner Vietor regarding the goal and actual replacement.

GM Kelly responded to a question from President Kwon regarding key cost drivers and coordination with other agencies for work that requires digging up a street to avoid multiple digs to ensure cost effectiveness (one dig policy). He responded to a follow-up question from Commissioner Vietor. Brief discussion ensued.

AGM Ritchie discussed CDD work categories for plumbers (unplanned and emergencies; planned SFPUC CIP; planned operating budget; and time off), all of which results in only 15% of plumbing crew time spent on planned main replacement work.

Challenges: (1) *Main replacement; (2) New facilities, equipment and technologies; (3) New responsibilities over time; and (4) Increasing water quality risks and concerns. He further discussed new facilities, equipment and technologies in WST Division.*

Operating Budget Request: (1) *Sources and uses of funds (FY2018, 2019, and 2020); (2) Total budget; and (3) Total full-time authorized positions.*

Commissioner Courtney discussed his concerns regarding the lack of non-plumbing apprentice (labor) trades position in the Water Enterprise budget. He indicated he would not support the Water Enterprise budget without the addition of pre-apprentice and apprentice programs. GM Kelly provided response regarding the positions classifications that are needed for such a program and policies that need to be in place. Commissioner Courtney provided response and reiterated the need for additional trade positions and policies at the SFPUC.

Cindy Charan, Director, SFPUC, Human Resources, discussed the citywide effort to formulate pre-apprentice programs with city departments, with SFPUC taking the lead. She stated a workforce initiative update will be presented to the Commission.

Commissioner Courtney thanked Ms. Charan for her comments and noted the importance of the issue. GM Kelly offered possible options to fund those positions through three-year positions. Discussion ensued. The GM emphasized the need for consistent apprentice programs.

GM Kelly responded to a question from Commissioner Vietor regarding the possibility of accelerating the policy/proposal. GM Kelly stated he will work on the issue and report back to the Commission with a strategy.

Commissioner Courtney expressed the need to hire qualified and capable public employees and the need to hire better via career pathways. Discussion ensued.

Budget Changes: (1) Enterprise-wide; (2) CDD efficiencies; (3) Water Supply and Treatment; (4) Water Quality Division; (5) Natural Resources; (6) Land Management Division; and (7) Water Resources Division.

Capital Budget Request: Managing the regional and local assets: (1) Maintain base regional program; (2) Maintain base local program; (4) Water transmission pipeline improvement program; (5) Improvements and Sunol Valley Water Treatment Plant (manage taste and odor issues and disinfection byproducts); (6) Pump station improvements (particularly San Antonio Pump Station); (7) Dam improvements; (8) New and improved facilities; (9) Water supply projects; (10) Increases for in-city work; (11) Programmatic environmental compliance; and (12) Other programmatic.

AGM Ritchie reviewed projects not funded in the 10-Year Capital Plan (San Antonio Pipeline Replacement; CSPL3 PCC Replacement; Bay Area Watershed and ROW Protection Program; Removal of abandoned facilities; Automated Water Meter Program Renewal; and additional Newcomb Yard improvements).

AGM Ritchie reviewed the 10-Year Capital Plan: (1) Change from prior year; (2) Capital Plan; (3) Two-Year budget request; and (4) Capital Plan summary.

AGM Ritchie responded to a question from Commissioner Vietor regarding the 15 mile replacement goal, operations and efficiencies, and the return-on-investment. Brief discussion ensued. Katie Miller, CDD Division Manager and CFO Sandler provided information on the scope of work.

VP Courtney discussed parcel land management and requested a map of parcels and the plan for land management.

Commissioner Vietor requested information on the Sunol Watershed Center timeline.

Public Comment

- Tom Francis, BAWSCA, discussed BAWSCA's participation in the process and thanked staff for including them. He outlined BAWSCA's comments on a number of projects. He noted BAWSCA is preparing a comparison of the SFPUC CIP process against other large water agencies. He expressed support for the Water budget proposal.*

The Commission recessed at 11:14 AM and reconvened at 11:26 AM.

CFO Sandler presented the 10-Year Financial Plan: (1) Key Assumptions; (2) Water sales volumes; (3) Major takeaways; (4) Water Enterprise projections; (5) Combined Water and Wastewater Retail Rate changes (actual and projected); (6) Combined Water and Wastewater average single family monthly bill (actual and projected); and (7) Unit affordability (cost as a percent of median household income).

No public comment.

VP Courtney stated he is not ready to approve the Water Enterprise budget as it stands but will connect with the General Manger on issues of concern.

B. Proposed Hetchy Water, Power & CleanPowerSF Budget, Capital and Financial Plans

- Hetchy Water FY 2018-19 and FY 2019-20 Operating Budget
- Hetchy Water FY 2018-19 through FY 2027-28 Capital Plan, including the FY2018-19 and FY 2019-20 Capital Budget

AGM Ritchie presented the Hetchy Water budget. He touched on the Water Enterprise organizational chart, including the Hetchy Water and Power Division, and reviewed the following:

Performance Metrics: (1) Achieve Water Enterprise LOS; (2) Maintain “Water First” operation of Hetch Hetchy facilities; (3) Maintain drinking water compliance; (4) Optimize hydroelectric power generation consistent with “Water First” policy; (5) Maintain dam safety compliance; (6) Maintain relationships with National Park Service, U.S. Forest Service, and Tuolumne County; and (7) Maintain compliance with WECC and NERC regulations.

Accomplishments: (1) Mountain Tunnel shutdown; (2) Managed through largest inflow in our hydrologic record, (3) Successful transition to the Assistant Division Manager; and (4) Completed audit by WECC.

FY 2019 and FY 2020 Biennial Budget Priorities: (1) Resource facilities maintenance; (2) Resources for WECC and NERC compliance; and (3) focus on highest priority capital projects.

FY 2019 and FY 2020 Biennial Budget Changes: (1) Seven WECC and NERC compliance project positions; (2) Replacement of heavy equipment; (3) Increased Don Pedro Recreation Association funding for replacement of visitor center; and (4) Increased NPS funding.

Challenges: (1) Limited resources for facilities maintenance; and (2) WECC and NERC compliance.

Operating Budget Request: (1) Uses of funds (FY2018, 2019, and 2020); (2) Total budget; and (3) Total full-time authorized positions.

Capital Budget Request: Highest priority projects: (1) Base Program; (2) Significant Water additions; (3) Significant Power additions; (4) Significant joint additions; and (5) Programmatic.

AGM Ritchie reviewed plan projects not funded in the 10-Year Capital Plan (1) Power: (Kirkwood Penstock rehabilitation; Holm Powerhouse – Cherry Creek Channel Improvements; Kirkwood Powerhouse; Holm Penstock additional rehabilitation; Holm Bridge replacement; and Moccasin Switchyard rehabilitation); and (2) Joint: (Buildings; Moccasin Yard improvements Phase II; Moccasin-to-Modesto communication fiber; Cherry Dam Spillway; and Moccasin Wastewater Treatment Plant).

He continued with a review of: (1) Capital Plan summary; (2) Hetch Hetchy 10-Year Capital Plan Change from prior 10-Year Plan; (3) Hetch Hetchy 10-Year Capital Plan; and (4) Hetch Hetchy Two-Year budget request.

No public comment.

The Commission recessed at 12:01 PM and reconvened at 12:13 PM.

- iii. Power Enterprise FY 2018-19 and FY 2019-20 Operating Budget
- iv. Power Enterprise FY 2018-19 through FY 2027-28 Capital Plan, including the FY2018-19 and FY 2019-20 Capital Budget
- v. Hetchy Water & Power FY 2018-19 through FY 2027-28 Financial Plan
- vi. CleanPowerSF FY 2018-19 and FY 2019-20 Operating Budget
- vii. CleanPowerSF FY 2018-19 through FY 2027-28 Financial Plan

Barbara Hale, AGM Power, began with a review of the Power Enterprise organizational chart and continued with a presentation of:

Performance Metrics: (1) Construct and maintain facilities to ensure reliable service and public safety; (2) Increase Hetchy customer load; (3) Provide financial and rate stability to customers through power portfolio risk management; (4) Comply with state and federal energy regulatory requirements and City goals; (5) Maintain best industry practices, LOS, and market rules and tariffs; and (6) Complete citywide enrollment and maintain low opt-out rates.

Accomplishments: (1) Generated retail revenue of \$108M; (2) Launched CleanPowerSF; (3) Developed commercial-paced procedures by creating new standard form Power Purchase Agreements for renewable energy facilities; and (4) Completed Integrated Resource Plan.

Commissioner Vietor requested that “Clean and Reliable Service and Public Safety” be added to the first bullet under “accomplishments”.

FY 2019 and FY 2020 Biennial Budget Priorities: (1) CPSF citywide enrollment; (2) Meet service level goals; (3) Continue to implement Power Enterprise Business Plans; (4) Continue to support local energy efficiency and renewable generation projects; and (5) Enhance critical functions to support growth.

Challenges: (1) Expanding CleanPowerSF; (2) Building to serve new customers (match pace); (3) Ongoing litigation and disputes with PG&E to protect customer base; and (4) Service level impacts associated with staffing.

Budget Request Summary: (1) New proposals support Business Plan objectives; (2) CPSF citywide rollout; (3) New customer billing system; (4) Ongoing litigation and risk management; and (5) Distribution maintenance.

Operating Budget Request Hetchy Power and CleanPowerSF: (1) Uses of funds (FY2018, 2019, and 2020); (2) Total budget; and (3) Total full-time authorized positions.

AGM Hale discussed the CPSF power portfolio risk management (forward contracted cost and projected total portfolio cost), and activities surrounding mitigating risk.

GM Kelly noted that staff is working on a map which will define Hetchy and CPSF customers as requested by Commissioner Vietor at the first budget hearing.

Commissioner Vietor requested additional information on the local build-out (when it might happen and the financial resources needed). AGM Hale and GM Kelly provided response. Commissioner Vietor also requested a graph which notes benchmarks, goals, and timelines.

AGM Hale continued with a review of Hetchy Power: (1) Capital Plan Summary; (2) 10-Year Capital Plan Change from prior 10-Year Plan; (3) 10-Year Capital Plan (highest priority projects); (4) Projects not funded in the 10-Year Capital Plan (energy efficiency for new retail customers; Intervening facilities (partial); Bay Corridor T&D (partial); and distribution interface – new customers (partial)); (5) 10-Year Capital Plan; and (6) Hetchy Power Two-Year budget request.

Commissioner Vietor stated there needs to be more energy efficiency efforts. AGM Hale responded to her request for a better understanding of energy efficiency return of investment for energy efficiency.

No public comment.

CFO Sandler presented the Hetch Hetchy Water and Power (HHWP) 10-Year Financial Plan: (1) Key Assumptions; (2) Power Enterprise sales volumes (actual and projected); (3) Major takeaways (capital infrastructure priorities driving future year cost increases); (4) HHWP Projections; and (5) Selected average power rates.

CFO Sandler presented the 10-Year Financial Plan: (1) Key Assumptions (conforms with Commission-approved financial policies except during ramp-up period where fund balance is below policy threshold); (2) FYE19/20 proposed Operating Budgets are incorporated; (3) Phase II customer roll-out July 2018, Phase III customer roll-out July 2019; and (4) Sales volume.

No public comment.

5. Motion to continue meeting to a Special Meeting noticed for February 1, 2018.

President Kwon adjourned the meeting at 1:19 PM.