



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Matt Loesch

SUBJECT: See Below

DATE: February 13, 2026

Approved

Date:

2/23/26

COUNCIL DISTRICTS: 2, 3, 4, 6, 7, 10

SUBJECT: Franchise Agreement with LS Power Grid California, LLC for Electric Services for Public Rights-of-Way

RECOMMENDATION

Adopt a resolution:

- (a) Setting a public hearing for March 24, 2026, at 1:30 p.m., to hear any objections to the granting of the franchise to LS Power Grid California, LLC for the purpose of transmitting electric services in the City's public rights-of-way; and
- (b) Directing the City Clerk to publish notice of the public hearing.

SUMMARY AND OUTCOME

Adoption of this resolution will enable the City Council to conduct a public hearing to consider objections to the City's intent to grant a franchise to LS Power Grid California, LLC (LS Power) for the installation and construction of electric interconnection and transmission facilities and appurtenances within the City's public rights-of-way on Monterey Road from the existing Pacific Gas & Electric (PG&E) San Jose B Substation to the existing PG&E Metcalf Substation and on Los Esteros Road from Zanker Road to Gold Street (see Attachment – Project Maps).

BACKGROUND

Electric transmission line upgrades are essential for ensuring a reliable and sufficient electricity supply for San José and the greater Bay Area. As San José transitions towards renewable energy sources of power, these upgrades are critical for efficiently integrating this variable power into the grid.

The California Independent System Operator selected LS Power to develop, construct, and own a high-voltage transmission line to meet electric reliability needs in the South Bay. The California Independent System Operator is a non-profit Independent System Operator serving California who oversees the operation of California's bulk electric power system, transmission lines, and electricity market generated and transmitted by its member utilities.

The high-voltage transmission line projects are known as the Power the Santa Clara Valley Project and the Power the South Bay Project, which will provide 2,000 megawatts of new capacity to the grid, significantly shaping how and where large amounts of power can be delivered across the region. The Power the Santa Clara Valley Project, also known as the Metcalf – San Jose B High-Voltage Direct Current Project, will come from the south along Monterey Road to Downtown San José. The Skyline terminal in Downtown San José will include a 230 kilovolt (kV) switchgear and will interconnect to PG&E's existing San Jose B substation. The Grove terminal in south San José will include a 500 kV switchgear and will interconnect to PG&E's existing Metcalf substation via a new 500 kV underground transmission line, approximately one mile in length. A new 320 kV high-voltage direct current underground transmission line within Monterey Road, spanning approximately 13 miles, will connect the two terminals. Additionally, 10 x 32 x 12 feet concrete splice vaults will be placed approximately every 1,500 to 3,000 feet along the underground transmission line to facilitate installation of the underground cables.

The Power the South Bay Project will come through the northern part of San José via approximately two miles of 230 kV alternating current overhead and underground transmission lines that cross the residual solids management operational area of the San José-Santa Clara Regional Wastewater Facility and then run along Los Esteros Road from Zanker Road to Gold Street. The combined length of both projects in San José will be approximately 15 miles. Each project will strengthen the electrical grid by providing robust new connections within the City and surrounding areas, helping support policies like Climate Smart San José and future economic development including future large-load customers.¹

ANALYSIS

As required by Chapter 15.32.030 of the San José Municipal Code, LS Power submitted the application for franchise on December 12, 2025.

¹ April 15, 2024, Information Memorandum: Support Position for Power Santa Clara Valley and Power South Bay Projects

<https://www.sanjoseca.gov/home/showpublisheddocument/110590/638489407972900000>

Under Article XIII of the San José City Charter, the City Council is empowered to grant a franchise by ordinance to any person for the purpose of furnishing the City or its inhabitants with water, light, heat, and gas, etc., or any other public utility or service using or proposing to use any public street, way, alley or place in the City. Subject to the provisions of Article XIII of the San José City Charter, the City Council may grant a franchise pursuant to procedures prescribed by ordinance or by state law.

Chapter 15.32 of the San José Municipal Code sets forth the City's exclusive procedures applicable to the granting of gas and electric franchises by the City including the procedure by which the City may grant a franchise to construct or use poles, wires, conduits, and appurtenances for transmitting and distributing electricity.

As outlined in Chapter 15.32.040, Title 15 of the San José Municipal Code, the City Council may pass a resolution declaring its intention to grant the proposed franchise. The City Council must then consider any objections to the granting of the franchise at a public hearing, which shall be set for a fixed time not less than 10 days nor more than 25 days after the date of the adoption of said resolution.

If the City Council adopts the resolution on March 10, 2026, declaring its intention to grant the proposed franchise ordinance, the ordinance will be scheduled for public hearing and the City Council's final consideration on March 24, 2026.

In 2021, the Public Works Department reviewed all franchise agreements spanning all utility types in the public right-of-way. A key finding is maximizing the franchise agreement process for mutual interests. For example, both parties want predictable franchise term lengths and do not want to increase costs for ratepayers. However, multi-decade terms reduce the ability to discuss shared interests and minimize the ability of a city to engage and secure partnership agreements to accomplish shared goals such as climate action, resiliency, and other programs.

Therefore, staff recommends a franchise term of 10 years that automatically renews for successive 10-year terms up to 40 years, to enable the City to discuss shared interests and engage and secure partnership agreements to accomplish shared goals. The proposed franchise sets forth various requirements for construction, operation and maintenance of LS Power's project, including insurance, bonds and indemnification requirements.

In addition to the 10-year franchise term, a separate Memorandum of Understanding is also a best practice to secure performance and partnership agreements not directly linked to the franchise. The Memorandum of Understanding states a shared commitment between LS Power and the City of San José to remain open to partner on innovative or pilot project opportunities that may arise in the next 10-year period such as piloting climate action technologies and accelerating climate resiliency options.

Construction is expected to begin in early 2026 and tentatively completed by 2028. Through the encroachment permit process, LS Power will provide a Construction Impact Mitigation Plan and continue to coordinate with City staff to prevent construction impacts in Downtown San José and upcoming 2026 Sporting Events.

EVALUATION AND FOLLOW-UP

The City Council will conduct a public hearing at the March 24, 2026, City Council meeting to hear any objections to the City's intent to grant the franchise. Any interested person may make a written protest stating objections against the granting of the franchise. All protests shall be signed by the protestor and be mailed or delivered to the City Clerk at 200 E. Santa Clara Street, 14th floor, San José, CA 95113, no later than 12 p.m. on March 24, 2026. At the time set for the hearing, the City Council shall hear all objections and pass upon all protests made and its decision shall be final and conclusive.

COST SUMMARY/IMPLICATIONS

LS Power will pay the City an annual franchise fee equal to 2.3% of revenue for use of the public right-of-way to convey electrical transmission lines, consistent with the franchise rate applied to PG&E. Under the franchise agreement, LS Power will remit payments within 60 days after the end of each calendar year. Substantial franchise fee revenue is not expected to be received until both projects become operational, which is currently anticipated in 2028. The full-year franchise payment is projected to range between \$500,000 to \$750,000 based on LS Power's Federal Energy Regulatory Commission revenue forecasts. Over the 40-year term, franchise payments are expected to decline by approximately 3% per year due to asset depreciation and the project's rate structure under the California Independent System Operator framework, with potential adjustments in later years tied to equipment reinvestments. Franchise fee revenue will be deposited in the City's General Fund.

COORDINATION

This memorandum was coordinated with the City Attorney's Office, City Manager's Budget Office, City Manager's Office of Economic Development and Cultural Affairs, Energy Department, Environmental Services Department, Fire Department, and the Planning, Building, and Code Enforcement Department.

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PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the March 10, 2026 City Council meeting. The City Clerk will also be directed to publish notice of the public hearing for March 24, 2026.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-007, Preliminary direction to staff and eventual action requires approval from decision-making body.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/
MATT LOESCH
Director of Public Works

For questions, please contact J. Guevara, Deputy Director of Public Works, at j.guevara@sanjoseca.gov or (408) 535-8300.

ATTACHMENT: Project Maps

