



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Ristow

SUBJECT: SEE BELOW

DATE: April 18, 2022

Approved

Date

04/21/22

SUBJECT: CITY ROADMAP – PAVEMENT, FIRE, EOC, TRANSIT CAPITAL IMPROVEMENTS: CHANGE ORDER #3 AND ON-BILL FINANCING LOAN 4 AMENDMENT TO THE PG&E TURNKEY SERVICE AGREEMENT FOR STREETLIGHT LED CONVERSION PROJECT

RECOMMENDATION

- (a) Approve Change Order #3 for Pacific Gas & Electric Company (PG&E) to perform work involving shoebox-shaped streetlight conversions in the amount of \$600,000 under the PG&E Turnkey Service Agreement for Streetlight LED Conversion.
- (b) Adopt a resolution authorizing the City Manager to negotiate and execute an amendment with PG&E for On-Bill Financing (OBF) Loan 4, to increase the payback period up to nine years.

OUTCOME

Approval of the above recommendations will allow the execution of a \$600,000 change order for PG&E and its contractor to convert up to 450 shoebox-shaped streetlights to LED as part of the PG&E Turnkey Streetlight LED Conversion Project (Turnkey Project). The cost of the change order will be incorporated into OBF Loan 4, extending the payback period by an additional two years to approximately nine years total.

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BACKGROUND

PG&E's OBF Program is funded by California utility customers and administered by PG&E under the direction of the California Public Utilities Commission (CPUC), with loan agreements and rules approved by the CPUC. The OBF Program loan is a no-interest, no-fee, simple payback loan that provides PG&E customers with a means to finance energy-efficient retrofit projects. The total loan payback period is calculated based on the City of San José's (City) continued payment of the pre-LED conversion rate (non-LED rate) until such time that the energy savings from the new fixtures has paid off the total loan amount.

On June 25, 2019, City Council adopted Resolution No. 79193, which authorized the City Manager to negotiate and execute agreements with PG&E for the financing and installation of up to 27,000 LED streetlight fixtures. The cost for PG&E services, which included procurement of the fixtures, was not to exceed \$11 million, with a payback period of up to seven years with zero financing charges. Six loans in roughly equal amounts were anticipated, each covering the cost of converting approximately 4,000 to 5,000 streetlights. The City Manager executed the PG&E Turnkey Service Agreement and OBF loans on July 24, 2020, which included a provision to allow the future addition of the LED conversion of shoebox-style fixtures to the project, with final scope and compensation to be negotiated at a later time.

The City Manager executed the following change orders to the Turnkey Services Agreement:

- June 29, 2021 - Change Order #1 in the amount of \$32,175 expanded the scope of work to include lead paint testing for streetlight poles.
- October 25, 2021 - Change Order #2 in the amount of \$16,500 further expanded the scope of work to include a field audit of shoebox-shaped fixtures.

The City Manager executed the following amendments to the OBF loans for this work:

- December 2, 2021 - Amendments to OBF Loans 1 and 2 true up final quantities and costs. OBF Loan 1 was modified to increase the total amount of the loan by \$425, from \$1,914,161 to \$1,914,586; and decrease the term of the loan by one month, from 81 months to 80 months. OBF Loan 2 was modified to decrease the total amount of the loan by \$217,320, from \$2,014,243 to \$1,796,923; and increase the term of the loan by eight months, from 75 months to 83 months.
- January 18, 2022 – Amendment to Loan 3 reduced the total amount of the loan by \$227,995, from \$2,100,189 to \$1,872,194; and increased the term of the loan by 15 months, from 66 months to 81 months, to true up final quantities and costs related to this loan.

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Upon completion of the Turnkey Project, the City's Department of Transportation (DOT) will reconcile streetlight data with PG&E's billing accounts to ensure energy cost savings is accurately reflected and applied towards the OBF loans. Once the loans are fully paid, the City's monthly energy bills will be adjusted to reflect the energy cost savings from the Turnkey Project.

ANALYSIS

As of March 14, 2022, PG&E has completed the conversion of 18,025 standard streetlights to LED fixtures. DOT streetlight maintenance crews also replaced 8,200 fixtures as part of routine burnout replacements, bringing the total converted to 26,225 streetlights. Two fixture types remain to be converted: 5,000 decorative pedestrian streetlights and 450 shoebox-shaped streetlights.

DOT streetlight maintenance crews will replace the 5,000 decorative pedestrian streetlights located throughout the City, including North San José, Japantown, Downtown, Willow Glen, Communication Hill, Evergreen, and Almaden Valley starting in early summer 2022. Due to the larger size and the multiple varieties of decorative fixture heads, the conversion of the decorative pedestrian streetlights is anticipated to take three to four years.

DOT staff has negotiated with PG&E to convert the 450 shoebox-shaped streetlight fixtures, which are generally located around the San José Airport, various areas of North San José, and on International Circle around the Kaiser Permanente campus in South San José. PG&E estimates that converting these fixtures to LED will cost \$600,000, which includes installation and materials. Conversion of the shoebox-shaped fixtures is more labor intensive than the conversion of standard streetlights, requiring multiple electricians and trucks, traffic control, and overtime work for night installations. DOT staff reviewed the estimate and determined that it was reasonable considering the scope of work and level of effort required.

The Turnkey Project OBF Loan 4 must be modified to incorporate this work, as well as to extend the payback period from 74 months (6 years and 2 months) to nine years. OBF Loan 4 was initially estimated at \$1.65 million for the conversion of 4,616 standard streetlights. With the incorporation of the 450 shoebox-shaped fixtures, and a revised number of standard streetlight LED conversions to 3,815, the new estimate for OBF Loan 4 is \$2.77 million. The lower number of standard streetlight fixtures requiring conversion is due to efforts by DOT staff, who continued to promptly replace 8,200 burnt out fixtures with LED fixtures during the course of the Turnkey Project. The new cost estimate also reflects escalated raw material cost and material ship containment at sea. As with the previous loan agreements, OBF Loan 4 will be updated with final quantities and costs after PG&E completes the LED conversions included under this agreement.

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PG&E estimates that they will be able to complete all shoebox-shaped streetlight conversions by June 30, 2022. In comparison, it would take DOT staff approximately three to four years to complete this same scope of work, due to staff’s current capacity and focus on converting decorative pedestrian streetlights. Additionally, the inclusion of the shoebox-shaped streetlight conversion work in the Turnkey Project will allow the City to fund the work through the modification of OBF Loan 4, without the need to secure up-front, dedicated funding.

The table below summarizes all LED conversions performed during the Turnkey Project:

OBF Loan #	# Streetlights Included	Cost
1	5085	\$1,914,586
2	4515	\$1,796,923
3	5085	\$1,872,194
4*	3815	\$2,768,303
Total Turnkey Project	18,500	\$8,352,006
Conversions by City Staff**	8,200	\$1,634,707
Total Lights Converted	26,700	\$9,986,713

* Includes shoebox-shaped fixture conversion

** Only includes material costs reimbursed by Measure T funds

CONCLUSION

Approval of the recommended actions will allow PG&E to proceed with the procurement and conversion of 450 shoebox-shaped fixtures as part of the Turnkey Project with an anticipated completion date of June 30, 2022. It will also allow the cost-efficient inclusion of the additional work in the existing OBF Loan 4 to be repaid with the energy savings from the LED installations. The increase in cost does not cause the project to exceed the \$11 million maximum cap originally identified for the Turnkey Project, but it will extend the payback period for OBF Loan 4 to nine years.

EVALUATION AND FOLLOW-UP

No further evaluation is necessary.

CLIMATE SMART SAN JOSE

The recommendations in this memorandum align with one or more Climate Smart San José energy, water, or mobility goals.

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COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Department of Public Works, the Department of Planning, Building and Code Enforcement, and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

The Turnkey Project cost will increase by \$600,000, bringing the project total cost to \$8,352,006. The project is funded by PG&E OBF loans, which are paid down over time with the energy cost savings from the converted LED streetlights. The \$600,000 change order cost can be covered within the OBF loan with a payback period of nine years.

CEQA

Categorically Exempt, File No. PP18-029, CEQA Guidelines Section 15301(c) Existing Facilities and PP19-024, CEQA Guidelines Section 15303(d) New Construction of Small Structures.

/s/

JOHN RISTOW

Director of Transportation

For questions, please contact Lily Lim-Tsao, Deputy Director, Department of Transportation, at Lily.Lim-Tsao@sanjoseca.gov.

Attachment:

Turnkey Change Order #3 – Shoebox Install



ADDITIONAL WORK AUTHORIZATION

PROJECT: City of San Jose – LED TURNKEY STREETLIGHT REPLACEMENT

PG&E CONTRACT No. SST-00020578

REFERENCE: **Change Order #3 – Shoebox Install**

REASON FOR CHANGE	
The City is adding approximately 450 shoebox fixtures in the LED replacement scope.	
ADDITIONAL WORK DESCRIPTION	
1) PG&E to procure and replace 450 shoeboxes with LED 2) City to provide the LED Model for the shoebox replacement	
COST IMPLICATIONS	
Total cost for the work is \$600,000.00. This cost will be included in the original OBF loan amount (\$11M) for this project.	
OTHER NOTES/ATTACHMENTS	
The estimated completion date for the project is extended to June 30, 2022. PG&E change order proposal attached.	
AUTHORIZING SIGNATURES	
PG&E <hr style="border: 0.5px solid black;"/> NAME: TITLE: DATE:	CITY OF SAN JOSE <hr style="border: 0.5px solid black;"/> NAME: John Ristow TITLE: Director of Transportation DATE: