SUTTER 1854 CREEK
John Sutter
JEWEL OF THE MOTHER LODE

STAFF REPORT

TO:	**THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL**
MEETING DATE:	**AUGUST 3, 2026**
FROM:	**TOM DUBOIS, CITY MANAGER**
SUBJECT:	**RECOMMENDATION TO EXECUTE CONSTRUCTION AGREEMENT FOR BATTERY ENERGY STORAGE SYSTEM WITH SCHNEIDER ELECTRIC**

RECOMMENDATION:

Staff recommends Council approve a motion authoring signing the construction agreement amendment by the September 4th deadline subject to advancing design, procurement, and construction through defined authorization milestones while PG&E service upgrades, WWTP design, project funding, and incentive eligibility are confirmed.

Staff recommends approving this now with Schneider Electric for Battery Energy Storage System (BESS) to preserve the City's conditional SGIP reservation and maintain access to available incentives..

BACKGROUND:

The City of Sutter Creek can capture significant tax credits and incentive funding for the installation of Solar and Battery Energy Storage Systems (BESS) at the Wastewater Treatment Plant (WWTP). To preserve a conditionally approved PG&E Self-Generation Incentive Program (SGIP) incentive, the City must execute a construction agreement amendment with Schneider Electric by September 4th. The federal tax incentive is a separate program with its own eligibility, construction, and filing requirements.

DISCUSSION:

City staff and Ridgeline Municipal Strategies have reviewed the financial models and cost-escalation scenarios provided by Schneider Electric. Executing the proposed BESS agreement now is intended to preserve the SGIP reservation, establish the current project and pricing framework, and accelerate over $1.8M in incentives. Today's proposed approval is for the BESS only while subsequent solar construction approval will come at a later time, after completion of additional design and due diligence.

The financial estimates below are based on Schneider Electric's July 2026 financial model and, where noted, assume the future new WWTP electrical load:

- Solar Cost: $2,550,000
- BESS Cost: $2,107,000
- Investment Tax Credit (ITC) estimate: $1,397,000 to 1,863,000 for both Solar and BESS, paid in full once the project is operational, subject to final eligibility and filing requirements and anticipated after the applicable systems are placed in service.
- SGIP incentive: $530,000 for BESS only, with 50 percent anticipated following installation and operation and the remaining 50 percent subject to applicable SGIP performance and payment requirements.
- Net Project Estimate (After Incentives): $2,794,170 to $3,259,865
- Projected Annual Energy Savings after New WWTP is Operational: $164,390
- Payback Period: 13 Years
- Cumulative 25-Year Cash Flow: $3,528,901

The Cost of Delay: Even with signing, Council should realize that construction costs increase over time. If the City delays the construction of both solar and BESS projects to 2028/2029 instead of 2028, Schneider Electric estimates that the City will face an estimated $363,120 in construction escalation costs ($240,720 for Solar and $122,400 for BESS). While construction costs increase with time, the amount of our incentives remains fixed.

RISKS, PG&E DEPENDENCIES, AND THE SGIP TIMELINE While the potential financial benefits of preserving the incentive opportunity are significant, this is a complex decision due to strict incentive timelines and external infrastructure dependencies:

- The September 4th Deadline: The SGIP conditional reservation requires the City to submit Proof of Project Milestone (PPM) documentation, which mandates a signed construction contract for the BESS equipment. This amendment must be signed by September 4th.
- Demonstrating Progress: Schneider Electric's SGIP Risk Timeline identifies a potential pathway for maintaining the reservation through multiple extension periods while the WWTP design and funding strategy are completed. These extensions are not automatic and will require continued program eligibility, approval by the SGIP administrator, and evidence of meaningful project progress. Potential progress activities may include design completion, site and electrical preparation, equipment procurement, and delivery.
- PG&E Service Upgrades: The project schedule is highly dependent on PG&E providing a major service upgrade, including a new transformer and a higher-power panel. The estimated delivery for this PG&E equipment is 18 months to 3 years.
- Aligning Load with Incentives: The amount and timing of SGIP payments depend on the BESS configuration, site load, and compliance with applicable SGIP performance requirements. The projected financial return assumes the larger electrical load associated with the new WWTP. The SGIP grant pays out its final 50% incrementally based on the actual load drawn by the facility. Therefore, aligning the WWTP funding and construction schedule with the energy improvements is critical to maximizing the financial return.

RECOMMENDATION: Given the various scenarios, Staff recommends Council approve a motion authoring signing the construction agreement amendment by the September 4th deadline subject to advancing design, procurement, and construction through defined authorization milestones while PG&E service upgrades, WWTP design, project funding, and incentive eligibility are confirmed.

- Worst-Case Scenario: If PG&E service upgrades face insurmountable delays, incentive eligibility cannot be maintained, or WWTP funding is not secured, the City retains contractual termination rights. The City would remain responsible for authorized work completed, reasonable termination costs, and any equipment or materials previously ordered or purchased. Staff intends to manage this exposure through staged authorization and procurement milestones.
- Best-Case Scenario: The City satisfies the SGIP and federal incentive requirements, receives the anticipated incentives, avoids over $360,000 in escalation costs, and successfully stretches taxpayer dollars.

BUDGET IMPACT:
BESS Construction costs will likely hit the budget in 2027 / 2028 with incentives being paid in 2029, 2031, 2032

Doing nothing now risks the loss of $530,000 in conditional SGIP incentives, and would expose the City to additional construction cost escalation if the project proceeds later.

Because we did not have details at the time, we conservatively budgeted the entire cost of solar and BESS in the current FY26-27 budget. However, we no longer expect to incur those costs this fiscal year, and will most likely finance it over a number of years. We are debt financing in order to preserve our Reserves for additional financing needed for the WWTP. You are not making a decision on the financing at this time.

ATTACHMENT
- Amendment No 1: Design Build Energy Services Contract
- SGP Risk Timeline