CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: November 5, 2014 Budget and Finance Committee Meeting

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Item 1 File 14-1054	Department: Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The Public Utilities Commission (PUC) is requesting the release of $3,135,666 previously reserved by the Budget and Finance Committee for the Hetch Hetchy Power System Impact Mitigation Project at Warnerville Substation.

Key Points

- The System Impact Mitigation Agreement between the San Francisco Public Utilities Commission (PUC) and North Star Solar, LLC (North Star) requires North Star to pay PUC the costs necessary to mitigate the impacts to PUC's electric transmission facilities at the Warnerville Substation caused by the interconnection of North Star's solar power project to the electric grid. The Board of Supervisors approved an ordinance (File 12-1007) in January 2013 that (1) authorized PUC to enter into the System Impact Mitigation Agreement with North Star; (2) authorized PUC to enter into future mitigation agreements with other projects without further Board of Supervisors approval; and (3) appropriated $2,900,000 in North Star mitigation payments to PUC. The Board of Supervisors placed the $2,900,000 on Budget and Finance Committee Reserve; and required that any future funds in excess of $100,000 for a given mitigation agreement be placed on Budget and Finance Committee reserve.
- In addition to North Star, three other companies have entered into mitigation agreements with PUC for total mitigation revenues of $3,135,666. Once PUC signs a mitigation agreement and collects mitigation funds, those funds are not returned to developers, even if they withdraw their project.
- Three additional companies have potential projects that could impact PUC's electric transmission facilities at the Warnerville Substation, but only one project sponsored by Sunpower Corporation would result in potential future mitigation revenues in the estimated amount of $4,556,643.

Fiscal Impact

- The budget for the upgrade of the Warnerville Substation is $6,435,000, of which PUC has collected $3,135,666 in mitigation revenues. PUC does not yet have funding of $3,299,334 to pay the balance of the Warnerville Substation upgrade costs but has identified other possible revenue sources, including potential future mitigation revenues from Sunpower or other companies, or use of Hetch Hetchy Improvement Program funds.

Recommendations

- Approve the release of reserves totaling $375,000 to cover assessment, design, environmental review, and construction management for the upgrade of one auto transformer at Warnerville Substation.
- Retain the balance of $2,760,666 on Budget and Finance Committee Reserve, pending submission by PUC to the Budget and Finance Committee of revenue and expenditure details regarding construction.

MANDATE STATEMENT

Section 9.118(a) of the City's Charter requires Board of Supervisors approval of a contract with anticipated revenue in excess of $1 million.

Section 3.3 of the City's Administrative Code provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve, which are then subject to release by the Budget and Finance Committee.

The System Impact Mitigation Agreement between the San Francisco Public Utilities Commission (PUC) and North Star Solar, LLC (North Star) requires North Star to pay PUC the costs necessary to mitigate the impacts to the City's electric system caused by the interconnection of North Star's solar power project to the electric grid. The Board of Supervisors approved an ordinance (File 12-1007) in January 2013 that (1) authorized PUC to enter into the System Impact Mitigation Agreement with North Star; (2) authorized PUC to enter into future mitigation agreements with other projects without further Board of Supervisors approval; and (3) appropriated $2,900,000 in North Star mitigation payments to PUC. The Board of Supervisors placed the $2,900,000 on Budget and Finance Committee Reserve; and required that any future funds in excess of $100,000 for a given mitigation agreement to be placed on Budget and Finance Committee reserve.

BACKGROUND

The California Electric Grid

The California electric grid is a system designed to transport electricity among utilities, private power plants, and state and federal agencies. A large portion of the grid is managed by the California Independent System Operator, better known as CAISO, a nonprofit public benefit corporation that has operational control over electric generating projects and transmission in California.

At this time, there are hundreds of proposed electric generating projects that seek to interconnect with the electric grid controlled by CAISO. CAISO studies the proposed projects in groups, called "Clusters", in order to identify the projects' impact on the system. CAISO published a study of Clusters 1 and 2 in August 2011. Since then, several projects have withdrawn their requests to connect. PUC is currently studying projects in Clusters 3 and 4.

As of September 25, 2014, there are fifteen Cluster 1 and 2 projects seeking to connect to the grid in the Fresno/Kern region. The PUC has identified that nine of the fifteen projects will impact PUC's electric transmission facilities at the Warnerville Substation.[1] In particular, the new connections raise the risk of overloads at the Warnerville Substation, which would impair PUC's ability to deliver electricity to one of its customers, Modesto Irrigation District.

[1] Margaret Hannaford, PUC Division Manager, says that of the 15 projects, 9 have an impact, 6 have no or minimal impact.

After CAISO identified potential impacts, the PUC then studied the cost of mitigating the impacts to its transmission system in each Cluster and allocated the costs among the nine projects being proposed by seven developers: Enco; SunEdison; North Star Solar, LLC; Recurrent; Getstamp Solar; Pacific Valley, LLC; and SunPower Corporation.[2]

Mitigation Agreements

In January 2013, the Board of Supervisors approved an ordinance (1) authorizing the PUC to enter into a mitigation agreement with North Star Solar, LLC, in which North Star would pay PUC their share of the costs of the associated necessary mitigation required to eliminate the impact of North Star's interconnection to the electric grid, and (2) appropriating $2,900,000 in mitigation revenues. The ordinance also authorized PUC to enter into future mitigation agreements without further Board of Supervisors approval and placed any future mitigation agreement revenues exceeding $100,000 per mitigation agreement on Budget and Finance Committee reserve. Under the agreements, projects that have an adverse impact on PUC's electric transmission must completely fund any mitigation efforts. Per the ordinance, the funds from the mitigation agreements will only be used for mitigation efforts. The funds are not returned once the mitigation agreement is signed and the mitigation payment collected.

In addition to North Star, three other companies have entered into mitigation agreements with PUC, as shown in Table 1 below, for total mitigation revenues of $3,135,666. The mitigation payments allocated to North Star, LLC have been reduced from $2,900,000 in the original legislation to $1,693,173.

Three other companies have potential projects that would impact PUC's electric transmission facilities at the Warnerville Substation, but only one project sponsored by Sunpower Corporation is expected to result in potential future mitigation revenues, as shown in Table 1 below.

[2] Enco is a privately-held firm based in Anaheim, CA; SunEdison is a publically-held firm based in St. Peters, MS; North Star Solar, LLC, is a wholly-owned affiliate of First Solar based in Tempe, AZ; Recurrent Energy is a privately-held firm based in San Francisco, CA; Getstamp Solar is a subsidiary of Corporación Gestamp, a privately-held firm based in Madrid, Spain; Pacific Valley, LLC is a privately-held firm based in Santa Barbara, CA; SunPower Corporation is a publicly-traded firm based in Richmond, CA.

Table 1: PUC Mitigation Agreements in Clusters 1 and 2

Developer	Project Name	Mitigation Amount ($)	Status	Expected Mitigation Payments
Enco	Corcoran West	$557,548	Signed Mitigation, received full payment	$557,548
SunEdison	FRV Regulus Solar	$470,026	Signed Mitigation, received full payment	$470,026
First Solar	North Star Solar I	$1,693,173	Signed Mitigation, received full payment	$1,693,173
Recurrent	Kent South	$414,919	Signed Mitigation, received full payment	$414,919
			Subtotal, Mitigation Payments Received	**$3,135,666**
Gestamp	San Joaquin 1A	$804,393	No Power Purchasing Agreement, Payment Unlikely	$0
	San Joaquin 2A	$802,807	No Power Purchasing Agreement, Payment Unlikely	$0
	Enrico Matson 4	$1,039,206	No Power Purchasing Agreement, Payment Unlikely	$0
Pacific Valley	Chowchilla	$2,679,725	No Power Purchasing Agreement, Payment Unlikely	$0
Sunpower	Henrietta	$4,556,643	Power Purchasing Agreement, Payment likely	$4,556,643
			Subtotal, Mitigation Payments Not Yet Received	**$4,556,643**
Total Mitigation Amount		**$13,018,440**	**Total Expected Payments**	**$7,692,309**

Source: PUC

As shown in Table 1 above, PUC has entered into four mitigation agreements with four developers (four projects) within Clusters 1 and 2. The remaining five projects, proposed by three developers, have yet to sign mitigation agreements. The PUC anticipates that not all projects will be built. However, the PUC assumes that at least one more mitigation agreement with Sunpower in the estimated amount of $4,556,643 will be signed.

The Warnerville Substation Upgrade

PUC's original recommendation was to replace Warnerville Substation Banks 1, 2 and 3. However, given that all nine projects will not be built, PUC has recommended a mitigation project to replace Warnerville Substation Bank 2 and Bank 3, two 230-115 kilovolt (kV) 75 megavolt ampere (MVA)[3] auto transformers, with one new 230-115kV 300 MVA auto transformer. A picture of one of the auto transformers to be upgraded is shown below in Exhibit 1. The new transformer will reduce the risk of overloads resulting from the new projects in Clusters 1 and 2. Total project costs are estimated at $6,435,000, as shown in Table 2 below. This project may require reprioritization of a separate Hetch Hetchy System Improvement Program (HSIP) construction project at Warnerville Substation[4] that is funded separately and will be performed simultaneously with the Warnerville Substation Upgrade to minimize construction outage time.

Exhibit 1: One Autotransformer at Warnerville Substation

Source: PUC

DETAILS OF PROPOSED LEGISLATION

PUC is now requesting the release of $3,135,666 in mitigation revenues received by PUC from four project developers, as shown in Table 1 above.

The released funds will be used to upgrade one auto transformer at the Warnerville Substation in order to mitigate the impact of new electric generation projects' connection to the electric

[3] A volt-ampere (VA) is the unit used for the apparent power in an electrical circuit. A kilovolt (kV) equals 1,000 volts and a megavolt ampere (MVA) equals one million volts.

[4] The separate project is Phase I of series of upgrades at Warnerville Substation, which include: altering the 115 kV bus configuration, conducting a fault study, a grounding study, replacing fencing, and replacing circuit breakers. The project has not yet begun and is expected to be completed FY 17-18. The project is funded by bonds issued as part of the HSIP program.

grid. These connections may impact the PUC's ability to deliver electricity to one of its customers, the Modesto Irrigation District.

FISCAL IMPACT

The $6,435,000 budget for the upgrade of the Warnerville Substation is shown in Table 2 below. PUC has collected $3,135,666 in mitigation revenue from four projects, as shown in Table 1 above. Once PUC signs a mitigation agreement and collects mitigation funds, those funds are not returned to developers, even if they withdraw their project. PUC is expecting to collect the remaining balance of the project cost, $3,299,334, from one of three possible revenue sources:

1. An expected mitigation payment of $4,556,643 from a Sunpower project in Clusters 1 / 2. PUC expects to collect these funds no later than March 2015.
2. If no further mitigation agreements are signed in Clusters 1 and 2, including the potential agreement with Sunpower, PUC intends to use Hetch Hetchy System Improvement Program (HSIP) funds from bonds to be issued in March 2015. According to Carlos Jacobo, PUC Budget Director, these funds have already been appropriated and are currently on Controller's reserve. According to Mr. Jacobo, use of HSIP bonds is appropriate because the Warnerville Substation upgrades are consistent with the capital program.
3. An additional possible source of revenue is mitigation revenues from projects in Clusters 3 through 7 that sign mitigation agreements with PUC because they are found to adversely impact the Warnerville Substation. PUC expects to be able to collect these funds no earlier than mid-2016.

At this time, PUC has not expended any funds on the Warnerville Substation Upgrade and construction has not begun. PUC intends to proceed with assessment, design, environmental review and preparation of construction contracts (items A and B in Tables 2 below), totaling $375,000 in costs. The Budget and Legislative Analyst therefore recommends that the Budget and Finance Committee approve the release of $375,000 and retain the balance of $2,760,666 on reserve until PUC submits revenue and expenditures details regarding construction.

Table 2: Cost of Upgrading One Auto Transformer

Cost of Replacing Banks 2 and 3 with One 300 MVA Transformer	
A Assessment	Included in B Below
B Design, Permitting & Environmental Documentation	$375,000
C Construction Management	$375,000
D Construction	$3,760,000
E Project Closeout	$25,000
Subtotal	**$4,535,000**
F City Administration	$450,000
Subtotal	**$4,985,000**
Contingency (20%)	$997,000
Project Estimate with Contingency (August 2014)	$5,982,000
Escalation	$453,000
Total Project Estimate (2016)	**$6,435,000**

Source: PUC

[1] According to Mr. Jacobo, the project contingency of 20 percent is necessary due to the complexity of the electric system upgrades.

RECOMMENDATIONS

1. Approve the release of reserves totaling $375,000 to cover assessment, design, environmental review, and construction management for the upgrade of one auto transformer at Warnerville Substation.
2. Retain the balance of $2,760,666 on Budget and Finance Committee Reserve, pending submission by PUC to the Budget and Finance Committee of revenue and expenditure details regarding construction.

Item 2 **File 14-1097**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would amend the City's Administrative Code to add subsection 21.44, wherein the Board of Supervisors authorizes Department of Public Health (DPH), under City Charter Section 9.118(a), to negotiate and enter into managed care contracts without additional Board of Supervisors approval provided that such contracts are: (1) for a term of less than three years, (2) approved by the Controller's Office, and (3) equal to or greater than the reimbursement rates used by the State Medi-Cal Authority as published by the California Department of Health Care Services.

Key Points

- With the passage of the Federal Affordable Care Act (ACA), more people are enrolling for health insurance through either their employer or directly through the State's health exchange. As a result, the funding model for DPH is changing and requires that DPH focus more on a managed care model of service delivery, for which DPH would be reimbursed by a third-party insurance company.
- Currently, there are five insurance companies that offer plans through Covered California and none of these plans allow the insured persons to select DPH as a health care provider. According to Mr. Greg Wagner, DPH Chief Financial Officer, DPH did not enter into any contracts with these insurance companies to be a health care provider during the 2014 open enrollment period in part because DPH was not able to quickly move the necessary contracts through the City's Charter-required approval process. DPH is requesting the proposed ordinance to prevent such a delay for future contracts that are currently being negotiated.

Fiscal Impact

- The value of the four potential managed care contracts to be entered into by DPH cannot be accurately estimated at this time. However, Mr. Wagner estimates DPH would receive up to $30 million of new revenues per year starting in 2019.

Policy Consideration

- Since DPH request is based on a need that is more significant in the short-term than it may be in three to five years, amend the proposed ordinance to allow DPH to enter into managed care contracts for up to three years, or through December 31, 2017.

Recommendations

- Amend the proposed ordinance on page 4 lines 16-18 to read "authorizes the Director of Health to enter into contracts *through December 31, 2017* anticipated to generate over $1 million in reimbursements or revenue to the City".
- Approve the proposed ordinance as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of $1 million or any modification of that contract is subject to Board of Supervisors approval.

Background

The San Francisco Department of Public Health (DPH) provides various health care services to people in San Francisco through the San Francisco General Hospital, Laguna Honda Hospital, and the primary care clinics. In order to recover costs for these services, DPH charges fees to individuals or to their insurance providers.

With the passage of the Federal Affordable Care Act (ACA), more people are enrolling for health insurance through either their employer or directly through the State's health exchange (Covered California[1]). As a result, the funding model for DPH is changing and requires that DPH focus more on a managed care model of service delivery, for which DPH would be reimbursed by a third-party insurance company.

Currently, DPH has managed care contracts with two State-designated Medi-Cal managed care plans, including the San Francisco Health Authority and Anthem Blue Cross. Any person who has health insurance through these two plans, can select DPH as his or her health care provider and can receive health care services from DPH, with the costs of such services reimbursed to DPH by those two plans.

Under the ACA, additional San Franciscans will enroll for health insurance through Covered California. According to Mr. Greg Wagner, DPH Chief Financial Officer, unless DPH enters into managed care contracts with these other non-Medi-Cal plans that offer coverage in San Francisco prior to the open enrollment period, which is from November 15, 2014 through February 15, 2015, then persons enrolling for health insurance through these other plans would not be able to select DPH as a health care provider. Consequently, DPH would forgo the revenues associated with those newly insured persons.

Currently, there are five insurance companies[2] that offer plans through Covered California and none of these plans allow the insured persons to select DPH as a health care provider. According to Mr. Wagner, DPH did not enter into any contracts with these insurance companies to be a health care provider during the 2014 open enrollment period in part because DPH was not able to quickly move the necessary contracts through the City's Charter-required approval process. DPH is requesting the proposed ordinance to prevent such a delay for future contracts that are currently being negotiated.

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[1] Covered California is the ACA-required State health exchange. People enrolling for health care can compare and enroll in competing State-authorized health insurance plans, through Covered California.

[2] Anthem, Blue Shield, Chinese Community Health Plan, Health Net, and Kaiser Permanente offer health plans in San Francisco.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the City's Administrative Code to add subsection 21.44, wherein the Board of Supervisors authorizes DPH, under City Charter Section 9.118(a), to negotiate and enter into managed care contracts without additional Board of Supervisors approval provided that such contracts are: (1) for a term of less than three years, (2) approved by the Controller's Office, and (3) equal to or greater than the reimbursement rates used by the State Medi-Cal Authority as published by the California Department of Health Care Services.

According to Mr. Wagner, DPH has had discussions with four[3] of the five third-party insurance companies that offer plans in San Francisco with the goal of being a listed health care provider under those plans. According to Mr. Wagner, the terms and provisions of the various contracts will vary based on the structures of the individual contracts (capitated rate[4], fee-for-service, or a combination), the term of the contracts, and the specific services to be covered or excluded by the contracts.

Mr. Wagner estimates that the first managed care contracts with each of the four health care plans will be for a term of approximately one year so that DPH and the plans can negotiate more appropriate contracts that are informed by the first years' experience. However, according to Mr. Wagner, after a few years of experience, DPH and the plans may enter into two-year or three-year contracts that are annually adjusted. As noted above, the proposed ordinance would limit such contracts to a term not-to-exceed three years.

As noted above, the proposed ordinance would authorize the Board of Supervisors to pre-approve managed care contracts entered into by DPH and third-party insurance plans provided that such contracts are (1) for a term not-to-exceed three years, (2) approved by the Controller's office, and (3) equal to or greater than the reimbursement rates used by the State Medi-Cal Authority as published by the California Department of Health Care Services.

Under the proposed ordinance, DPH is required to submit (1) quarterly updates to the Health Commission about these managed care contracts identifying the amount of revenues received, (2) annual reports to the Board of Supervisors and the Mayor, and (3) biennial analyses with the Controller's Office to guarantee that the rates and reimbursements are within an appropriate range of costs.

FISCAL IMPACT

According to Mr. Wagner, the value of the four potential managed care contracts to be entered into by DPH cannot be accurately estimated at this time. Mr. Wagner notes that the value of such contracts will depend on (1) the number of insured persons who select DPH as their

[3] DPH was unable to provide the names of the four insurance companies since these discussions are confidential and since the details of the discussions are highly sensitive.

[4] A capitated rate model of service assumes that the health care provider is responsible for all treatment under a plan and is reimbursed a flat, monthly amount per insured person. By contrast, under a fee-for-service model, the insurance plan sets individual rate for each service and reimburses the health care provider on per-use basis.

health care service provider, (2) the State's reimbursement rates, (3) whether the contract is based on a fee-for-service model, a capitated rate model, or a combination of the two, (4) the length (one-, two-, or three-years) of the contracts, and (5) the services covered or excluded by the individual plans. According to Mr. Wagner, the annual amount of revenues received by DPH are anticipated to be less initially, but will grow over time as more insured persons select DPH as their health care provider. Mr. Wagner estimates DPH would receive up to $30 million of new revenues per year starting in 2019.

Additionally, not all persons who receive care through DPH will be covered by one of the plans in Covered California or will have insurance. In such situations, DPH will not recover costs from third-party insurers but will charge the individuals directly, or will subsidize the cost of services through the City's General Fund. Alternatively, if DPH is not a contracted provider under a patient's designated managed care health plans, those patients would not be authorized to receive services through DPH (except for emergency services) and DPH would not be reimbursed for those patients.

POLICY CONSIDERATION

Deferring Charter-Required Approvals

The proposed ordinance would allow DPH to enter into revenue-generating managed care contracts that could potentially generate significant revenues for the City without future Board of Supervisors approval of these contracts, as currently required under the City Charter.

As noted above, DPH is requesting this authority to more quickly enter into managed care contracts in order to be an eligible health care provider under health insurance plans and therefore to recover costs.

Since DPH request is based on a need that is more significant in the short-term than it may be in three to five years, the Budget and Legislative Analyst's Office recommends amending the proposed ordinance to allow DPH to enter into managed care contracts for up to three years, through December 31, 2017. Mr. Wagner concurs with the Budget and Legislative Analyst's Office's recommendation.

RECOMMENDATIONS

1. Amend the proposed ordinance on page 4 lines 1618 to read "authorizes the Director of Health to enter into contracts *through December 31, 2017* anticipated to generate over $1 million in reimbursements or revenue to the City".
2. Approve the proposed ordinance as amended.