November 12, 2021 | San Francisco Public Utilities Commission

RATE FAIRNESS BOARD MEETING
MEETING OBJECTIVES

• Review project status
• Understand consultant and staff recommended rate increases
• Ask questions regarding existing and future analysis
STUDY BACKGROUND

• Study purpose:
  – Define costs to provide power to Hetch Hetchy Power (HHP) and CleanPowerSF customers
  – Analyze rate impacts from various scenarios/sensitivities
  – Offer innovative rates and services
  – Develop retail rates for customers to be implemented July 1, 2022 (FYE 2023)

• Study initiated March 5, 2021
  – Approximately 1,000 hours invested
  – About 50% of budget expended

• Conducted numerous meetings with PUC staff, management, and advisors
  – Biweekly status/strategy discussion calls with PUC Rates Team
  – Data calls HHP, CleanPowerSF staff and management
  – Rate Fairness Board Meetings – April 23, September 24, November 12
  – Steering Committee Meetings – June 9, October 29
• Two separate analyses for HHP and CleanPowerSF
• Focus on impacts from reserve policies on rates
• Sensitivities/scenario analyses:
  – Load growth
  – Power pricing
  – Dry Year Costs for HHP
• Specific rates to be developed:
  – All-Electric, electric vehicles (EV), green tariffs, time of use (TOU), Net Energy
    Metering (NEM), battery storage rates
  – Low-Income/Economically disadvantaged
• Line Extension fees and policies (workshop August 27)
STUDY STATUS – ONGOING ANALYSIS

• Revenue Requirement (Cash Basis):
  – Operations and Maintenance (O&M) Expenses
  – Programmatic Expenses
  – Debt Service:
    • Developed debt module
  – Non-Debt Capital
  – Less Other Revenues

• Billing determinants:
  – Customers by class
  – Peak demand
  – Energy usage

• Sensitivity analysis
  – Impacts to average system rates
STUDY STATUS – NEXT STEPS

• Finalize Revenue Requirement:
  – Milestone: November 12

• Cost Allocation/Cost of Service:
  – Milestone: November 30

• Base Rate Design:
  – Finalize Rate Structures: December 1
  – Draft Rate Design: January 21

• Rate Fairness Board:
  – November 12
  – Future meetings TBD
MODELING ASSUMPTIONS

- Draft operating and capital budget
  - Will revise with final budget in December, unlikely to change trajectory
- Compliance with financial policies
  - Adopted policies for Hetchy
  - Proposed 180 days reserve policy for CleanPowerSF

- Volume data:
  - Hetchy:
    - Multi-year recovery from COVID impacts
    - Growth in new customers from redevelopment areas, major projects
    - Loss of unmetered customers due to new “wholesale distribution tariff” requirements by PG&E
  - CleanPowerSF – 0.5% annual growth

- Power supply and related costs updated
**Recommendations/Summary:**

- **2-Year Test Year & Rate Plan**
  - Reduce uncertainty
- **Spot energy projected to decrease**
  - Approximate 30% decrease over 5 years
- **Contribution to reserves**
  - Increases to meet target in FYE 2023, 2024
- **Assumes rate increases in current budget**
**Discussion:**

- TY Revenue Requirement: $278.5 M
  - Power supply costs: 78% ($225.2 M)
  - Spot energy: 42% of power supply costs ($91.5 M)
- Deposits to reserves increased to achieve minimum target
  - $21.1 M TY average
**CLEANPOWERSF**

**SET RATES TO PG&E**

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### CleanPowerSF Rates Set to PG&E Rates

<table>
<thead>
<tr>
<th>Item</th>
<th>FYE 2023</th>
<th>FYE 2024</th>
<th>FYE 2025</th>
<th>FYE 2026</th>
<th>FYE 2027</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales in MWh</strong></td>
<td>2,954,384</td>
<td>2,969,158</td>
<td>2,984,003</td>
<td>2,998,924</td>
<td>3,013,918</td>
</tr>
<tr>
<td><strong>Annual % Changes in MWh Sales</strong></td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Set CleanPowerSF Rates Equal to PG&amp;E ($/MWh)</td>
<td>$114.74</td>
<td>$110.39</td>
<td>$105.56</td>
<td>$103.56</td>
<td>$101.34</td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>78</td>
<td>88</td>
<td>96</td>
<td>102</td>
<td>108</td>
</tr>
<tr>
<td>EOY Fund Balance ($M)</td>
<td>$56</td>
<td>$60</td>
<td>$63</td>
<td>$66</td>
<td>$69</td>
</tr>
<tr>
<td>% Change from FYE 2022 CleanPowerSF Rate</td>
<td>(16.3%)</td>
<td>(3.7%)</td>
<td>(4.4%)</td>
<td>(1.9%)</td>
<td>(2.2%)</td>
</tr>
</tbody>
</table>

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**Analysis:**

- Set future CleanPowerSF rates equal to projected PG&E rates July 1, 2022 (FYE 2023+)
  - Negate 1/1/22 CleanPowerSF rate increase (proposed 15%)
  - Not meeting reserve policy targets (Days Cash on Hand)
    - Insufficient reserve fund balance
- Not financially feasible or recommended by management
  - Rating Agency pressure on CCAs in general to maintain adequate reserves
## CLEANPOWERSF
### RECOMMENDED RESERVE REQUIREMENTS

**Reserves: 150 Days in 2 Years & 180 Days in 4 Years**

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<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td>CleanPowerSF All-In Customer Rate ($/MWh)</td>
<td>$122.06</td>
<td>$117.44</td>
<td>$106.89</td>
<td>$104.87</td>
<td>$101.34</td>
</tr>
<tr>
<td>Days of Cash on Hand</td>
<td>107</td>
<td>150</td>
<td>166</td>
<td>180</td>
<td>187</td>
</tr>
<tr>
<td>EOY Fund Balance ($ Million)</td>
<td>$77.8</td>
<td>$102.0</td>
<td>$108.7</td>
<td>$116.0</td>
<td>$118.8</td>
</tr>
<tr>
<td>CleanPowerSF Rates Over PG&amp;E Gen Rates</td>
<td>6.4%</td>
<td>6.4%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**Analysis:**
- Increase future CleanPowerSF rates for FYE 2023, FYE 2024 by ~6.4%
  - Meeting minimum reserve (Days Cash on Hand) by FYE 2024 (150 days)
  - Increase reserves to target 180 Days Cash on Hand by FYE 2026
- Revenue requirement presented previously
  - $278.5 M for 2-year TY period
CLEANPOWERSF
COMPARISON OF PROPOSED GENERATION RATES TO PROJECTED PG&E

<table>
<thead>
<tr>
<th>Generation Rate ($/MWh)</th>
<th>FYE 2023</th>
<th>FYE 2024</th>
<th>FYE 2025</th>
<th>FYE 2026</th>
<th>FYE 2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Margin From PG&amp;E</td>
<td>$115</td>
<td>$110</td>
<td>$106</td>
<td>$104</td>
<td>$101</td>
</tr>
<tr>
<td>PCIA + FFS</td>
<td>$27</td>
<td>$26</td>
<td>$24</td>
<td>$24</td>
<td>$23</td>
</tr>
<tr>
<td>Avg Gen Rate</td>
<td>$115</td>
<td>$110</td>
<td>$106</td>
<td>$104</td>
<td>$101</td>
</tr>
<tr>
<td>PG&amp;E Avg Gen Rate</td>
<td>$122</td>
<td>$117</td>
<td>$107</td>
<td>$105</td>
<td>$101</td>
</tr>
</tbody>
</table>
CLEANPOWERSF
PROJECTED SPOT ENERGY PRICE VS. S&P FORECAST

• CleanPowerSF:
  – Sales into/out of market
  – Projection for spot prices
    • July 2022–June 2025
  – S&P Consensus forecast
  – Day Ahead Market (NP15)

• Projected:
  – Downward trend in market prices
  – CleanPowerSF is slightly higher than S&P projection
  – Converging by FYE 2025
CLEANPOWERSF POLICY PRIORITIES

• Implement 2-year rate plan
• Build reserves to 150 days in 2 years
  – Increase to 180 days in 4 years
• Reduce rate premium over PG&E
  – From current 15% level to 10% or less
• Mitigate against downside risk (higher expenses, lower revenues)
HETCH HETCHY POWER
HETCH HETCHY POWER
REVENUE REQUIREMENT BY YEAR

Summary:
- Average 15% increase in Net Retail Revenue Requirement
- O&M Expenses – 45% of total, 13% average increase
- Power Supply & Delivery Charges – 44% of total, 10% average increase
- Debt Service, Non-Debt Capital (Rate Funded Capital) – 11% of total, 59% average increase
Discussion:
• Risk for HHP focuses on TAC/WDT charges
  – Current legal challenge
• Market purchases are 5% of Revenue Requirement
• Renewable Power Purchase is Sunset Solar project
HHP
ANALYSIS OF METRICS

<table>
<thead>
<tr>
<th>HHP Metrics</th>
<th>FYE 2023</th>
<th>FYE 2024</th>
<th>FYE 2025</th>
<th>FYE 2026</th>
<th>FYE 2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in MWh</td>
<td>1,424,487</td>
<td>1,549,539</td>
<td>1,569,696</td>
<td>1,629,729</td>
<td>1,676,540</td>
</tr>
<tr>
<td>Annual % Changes in Retail MWh Sales</td>
<td>5.8%</td>
<td>13.7%</td>
<td>3.8%</td>
<td>10.8%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Average $/MWh Retail Sales Revenues</td>
<td>$158.84</td>
<td>$168.33</td>
<td>$176.61</td>
<td>$186.54</td>
<td>$197.73</td>
</tr>
<tr>
<td>Average % Annual Retail Rate Changes</td>
<td>8.3%</td>
<td>6.0%</td>
<td>4.9%</td>
<td>5.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Days of Cash on Hand</td>
<td>146</td>
<td>147</td>
<td>159</td>
<td>179</td>
<td>191</td>
</tr>
<tr>
<td>Debt Service Coverage – Current Basis</td>
<td>1.10</td>
<td>3.40</td>
<td>2.93</td>
<td>4.46</td>
<td>2.34</td>
</tr>
</tbody>
</table>

Discussion:
- Days cash on hand is lower than CleanPowerSF (less market exposure)
- Reasonable average $/kWh change:
  - Will not be the same for each customer class
  - Assumes “overnight” change to cost-based rates
- Debt Service Coverage for FYE 2023 minimum (1.10)
  - Requires 8.3% rate increase
POLICY PRIORITIES FOR HETCH HETCHY RATE SETTING

• Reminder: Hetchy has three categories of rates: standard retail, municipal general use, and municipal enterprise.
  – Full rate strategy needs to include transition to cost of service for all three categories instead of differences present today
  – Recommend setting retail non-municipal rates at true cost of service
  – Will propose strategy to transition municipal customers to cost of service over multi-year period

• Recommend adoption of 2-year rate plan
WRAP UP
POWER RATE STUDY TIMELINE

2020
- Identify Rates & Fees
- Customer Profiles
- Revenue Requirement
- Outreach Phase 1

2021
- Cost of Service Analysis
- Budget Update
- Develop Power Rates and Charges
- Outreach Phase 2

2022
- Rate Adoption
- Rate Implementation
WRAP UP

• Next Steps in process:
  – Direction on scenarios
  – Continue with modeling effort
  – Complete COS
  – Begin Rate Design

• Next meeting:
  – TBD