February 4, 2022 | San Francisco Public Utilities Commission

RATE FAIRNESS BOARD MEETING
AGENDA

1. Meeting Objectives/Study Status
2. Cost of Service Process
3. CleanPowerSF COS and Rate Design
4. Hetch Hetchy Power COS and Rate Design
5. Wrap Up
MEETING OBJECTIVES

• Review project status
• Discussion of how costs are allocated to functions and customers
• Preliminary cost of service across customer classes
• Preview decisions to support rate design stage
STUDY STATUS

• Finalize Revenue Requirement:
  – Milestone: December 31
• Cost Allocation/Cost of Service:
  – Milestone: January 31
• Base Rate Design:
  – Finalize Rate Structures: February 11
  – Draft Rate Design: February 21
• Rate Fairness Board:
  – September 24
  – November 12
  – February 4
  – TBD
COST OF SERVICE ANALYSIS
MODELING ASSUMPTIONS

• Revenue requirement reflects new budget proposals, changes to capital plans
• Incorporated final budget from December 31
• Cost of service allocations and customer data:
  – Still working on certain line items, details
  – General takeaways shown today likely will not change
CLEANPOWERSF REVENUE REQUIREMENT – 2 YR. TY

<table>
<thead>
<tr>
<th>CleanPowerSF ($000)</th>
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<tbody>
<tr>
<td>Renewable Energy</td>
<td>$65,121</td>
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<tr>
<td>Spot Energy</td>
<td>$96,180</td>
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<tr>
<td>Other Power Supply</td>
<td>$83,631</td>
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<tr>
<td>Operating/Other Costs</td>
<td>$34,409</td>
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<tr>
<td>Deposit to/(Use of) Reserves</td>
<td>$21,365</td>
</tr>
<tr>
<td>Total</td>
<td>$301,206</td>
</tr>
</tbody>
</table>

Discussion:
- 2-Year Test Year/2-Year Rate Plan
- Objective to achieve reserve balance (150 days)
- Exposure to spot market
CLeanpowERSf FunctionAL Cost Allocation

<table>
<thead>
<tr>
<th>Function</th>
<th>Revenue Requirement</th>
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<tbody>
<tr>
<td>Power Supply</td>
<td>$277,111</td>
</tr>
<tr>
<td>Transmission</td>
<td>$0</td>
</tr>
<tr>
<td>Distribution</td>
<td>$0</td>
</tr>
<tr>
<td>Customer</td>
<td>$24,095</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$301,206</strong></td>
</tr>
</tbody>
</table>

Discussion:
- CleanPowerSF is Power Supply and Customer function only.
- Majority of costs are Power Supply (92%).
- Customer costs include:
  - Data Management & Service fees (Calpine)
  - Customer Accounts, Services, & Sales (Labor)
  - Energy Programs (EE, DSM, etc.)
CLEANPOWERSF POWER SUPPLY COST ALLOCATION

Discussion:

• Power Supply costs are fixed and variable.
  – Mostly market energy purchases (variable with load)
    □ Including renewable energy contracts (PPA)
  – Fixed costs for capacity

• Purchasing RECs for Green/SuperGreen.
Discussion:

- Use class contribution to the peak to allocate demand related costs.
- Class demand “Coincident Peak” (CP) with system:
  - How does each class contribute to the peak?
  - Use 12 months CP.
- Energy use by class used to allocate energy costs.
Allocate expenses according to cost causation:

- Demand related
- Energy related
- Customer related
CLEANPOWERSF PRELIMINARY COST OF SERVICE

Discussion:
• Preliminary, still working through allocation process
• Higher % of power supply costs relative to customer costs for larger users
  – Excludes PCIA/FFS
VOLATILITY CHARACTERIZES PG&E BUNDLED RATES

PG&E Proposed Changes:

- Increase in Generation Rate
  - Increase in Market Prices
  - Recovering previous under-collection
- Decrease in PCIA/FFS
  - Increase in Market Value
  - Returning previous over-collection
PG&E RATE INCREASE ISSUES

• Potential favorable PG&E generation/PCIA rate change for 2022.
  – Under adopted rates authority, CleanPowerSF rates would be 15% above PG&E rates (accounting for PCIA), or at cost of service if lower.
  – Increase in margin to PG&E to recover high energy costs (2021) and reduce use of fund balance reserves.

• PG&E rate increase delayed to March 2022 (possibly).
  – Unknown if magnitude will be the same.

• CleanPowerSF rates will not change this fiscal year until/unless PG&E rates change.
CLEANPOWERSF RATE SETTING NEXT STEPS

• Uncertainty over PG&E rate increase:
  – Uncertainty for CleanPowerSF rates at end of FY2022
  – Impact to contribution to reserves/reserve balance

• SFPUC goals for rates:
  – Build to 150 days reserves in 2 years (floor)
  – Build to 180 days reserves in 4 years (target)
  – Mitigate against downside risk (higher expenses, lower revenues) via conservative assumptions/contingencies
  – Reduce margin vs. PG&E as much as possible
HETCH HETCHY POWER REVENUE REQUIREMENT – 2 YR. TY

**Hetch Hetchy Power ($000)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($000)</th>
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<tbody>
<tr>
<td>O&amp;M Expenses</td>
<td>92,134</td>
</tr>
<tr>
<td>Power Purchases</td>
<td>22,707</td>
</tr>
<tr>
<td>Transmission &amp; Distribution Charges</td>
<td>71,565</td>
</tr>
<tr>
<td>Programmatic Expenses</td>
<td>12,769</td>
</tr>
<tr>
<td>Debt Service</td>
<td>3,682</td>
</tr>
<tr>
<td>Non-Debt Capital Expenses</td>
<td>6,252</td>
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<tr>
<td>Total Expenses</td>
<td>209,109</td>
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<tr>
<td>(Less Other Revenues)</td>
<td>($41,109)</td>
</tr>
<tr>
<td>Deposit to/(Use of) Reserves</td>
<td>3,529</td>
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<tr>
<td>Total</td>
<td>170,921</td>
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**Discussion:**

- 2 Year Test Year/2 Year Rate Plan
- Objective to achieve Debt Service Coverage (1.1x)
- Transmission and Distribution charges from PG&E
HETCH HETCHY POWER – BY FUNCTION

Discussion:
• Power Supply:
  – Capacity
  – Market Purchases
• Transmission:
  – Upcountry and downcountry assets
  – CAISO charges/fees
• Distribution:
  – Downcountry only
  – Incorporates Line Extension (50% cost share)
  – Increased WDT charges included
• Customer:
  – Downcountry labor
  – Customer service/accounting
HHP DEMAND COST ALLOCATION

Discussion:
- Use class contribution to the peak to allocate demand-related costs
- Airport (SFO) and Industrial > 65% @ System Peak
- Residential very small contribution (<1%)
Allocate expenses according to cost causation:

- Demand related
- Energy related
- Customer related
HETCH HETCHY POWER RATE CLASSES (TRANSITION)

**General Fund (GUSE)**
- Small Commercial
- Medium Commercial
- Large Commercial
- Industrial

**Enterprise**
- Residential
- Small Commercial
- Medium Commercial
- Large Commercial
- Industrial/Large Commercial (> 1,000 kW)

**Airport (SFO)**

**Retail**
- Residential
- Small Commercial
- Medium Commercial
- Large Commercial
- Industrial

Existing HHP Customer Classes (by Sales)

- General Fund (GUSE) - 34%
- Enterprise - Airport - 31%
- Enterprise - Non Airport - 10%
- HHP Retail - 10%
HETCH HETCHY POWER RATE CLASSES (PROPOSED)

HHP Rate Design:

• Standardized customer classes
• Seasonal, time-of-use, and tiered rates, as appropriate
• One rate change per fiscal year
• Options for electric vehicles, all-electric, net energy metering, RPS-eligible tariffs, etc.
• Low-income rates
**HHP PRELIMINARY COS RESULTS**

**Discussion:**

- Preliminary, still working through allocation process.
- Expect to see larger contribution for customer for residential.
- Expect to see lower contribution for distribution for larger customers.

<table>
<thead>
<tr>
<th></th>
<th>Residential</th>
<th>Small Commercial</th>
<th>Medium Commercial</th>
<th>Large Commercial</th>
<th>Industrial</th>
<th>SFO</th>
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<tbody>
<tr>
<td>Power Supply</td>
<td>38%</td>
<td>18%</td>
<td>8%</td>
<td>6%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Transmission</td>
<td>35%</td>
<td>28%</td>
<td>31%</td>
<td>31%</td>
<td>32%</td>
<td>35%</td>
</tr>
<tr>
<td>Distribution</td>
<td>42%</td>
<td>21%</td>
<td>32%</td>
<td>33%</td>
<td>31%</td>
<td>42%</td>
</tr>
<tr>
<td>Customer</td>
<td>9%</td>
<td>25%</td>
<td>32%</td>
<td>33%</td>
<td>36%</td>
<td>2%</td>
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</tbody>
</table>
WRAP UP
POWER RATE STUDY TIMELINE

2020

J  A  S  O  N  D

Identify Rates & Fees

Customer Profiles

Revenue Requirement

Cost of Service Analysis

Outreach Phase 1

2021

J  F  M  A  M  J  J  A  S  O  N  D

Budget Update

Develop Power Rates and Charges

Outreach Phase 2

2022

J  F  M  A  M  J  J  A  S  O

Rate Adoption

Rate Implementation
WRAP UP

• Next Steps in process:
  – Finalize COS next week
  – Begin Rate Design

• Next meeting
  – TBD