



November 12, 2021 | San Francisco Public Utilities Commission

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# RATE FAIRNESS BOARD MEETING



# AGENDA

- 1 Process/Project Completion Status
- 2 Revenue Requirement – CleanPowerSF
- 3 Revenue Requirement – Hetch Hetchy
- 4 Status of Modeling
- 5 Wrap Up

# MEETING OBJECTIVES

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

# STUDY BACKGROUND

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- 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

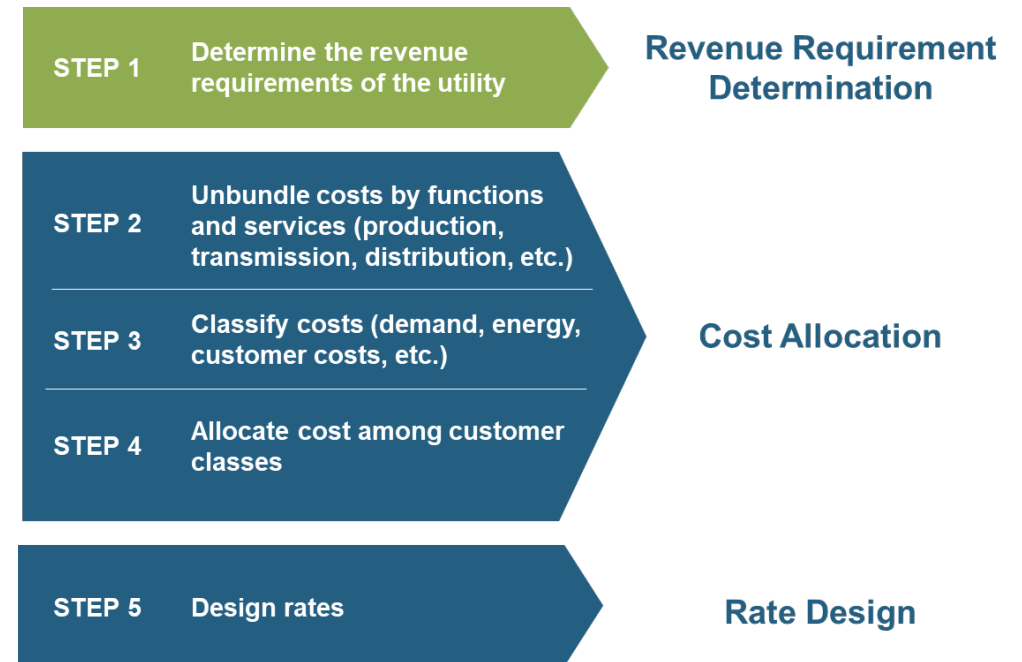
# STUDY STATUS – DELIVERABLES FRAMEWORK MEMO

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- 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)

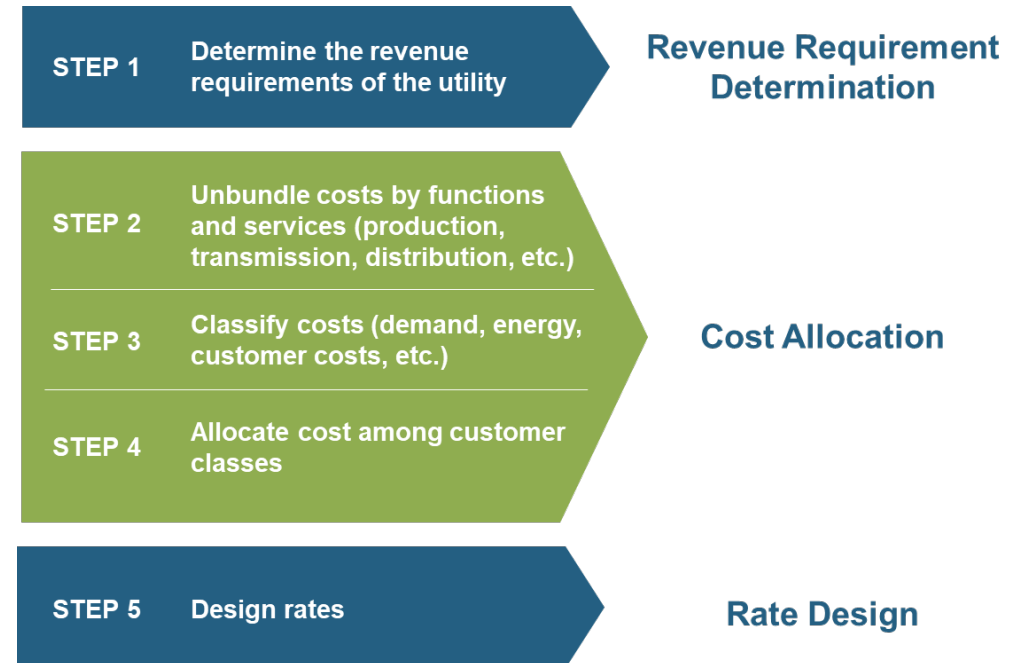
# STUDY STATUS – ONGOING ANALYSIS

- 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



# REVENUE REQUIREMENT PROJECTIONS

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# MODELING ASSUMPTIONS

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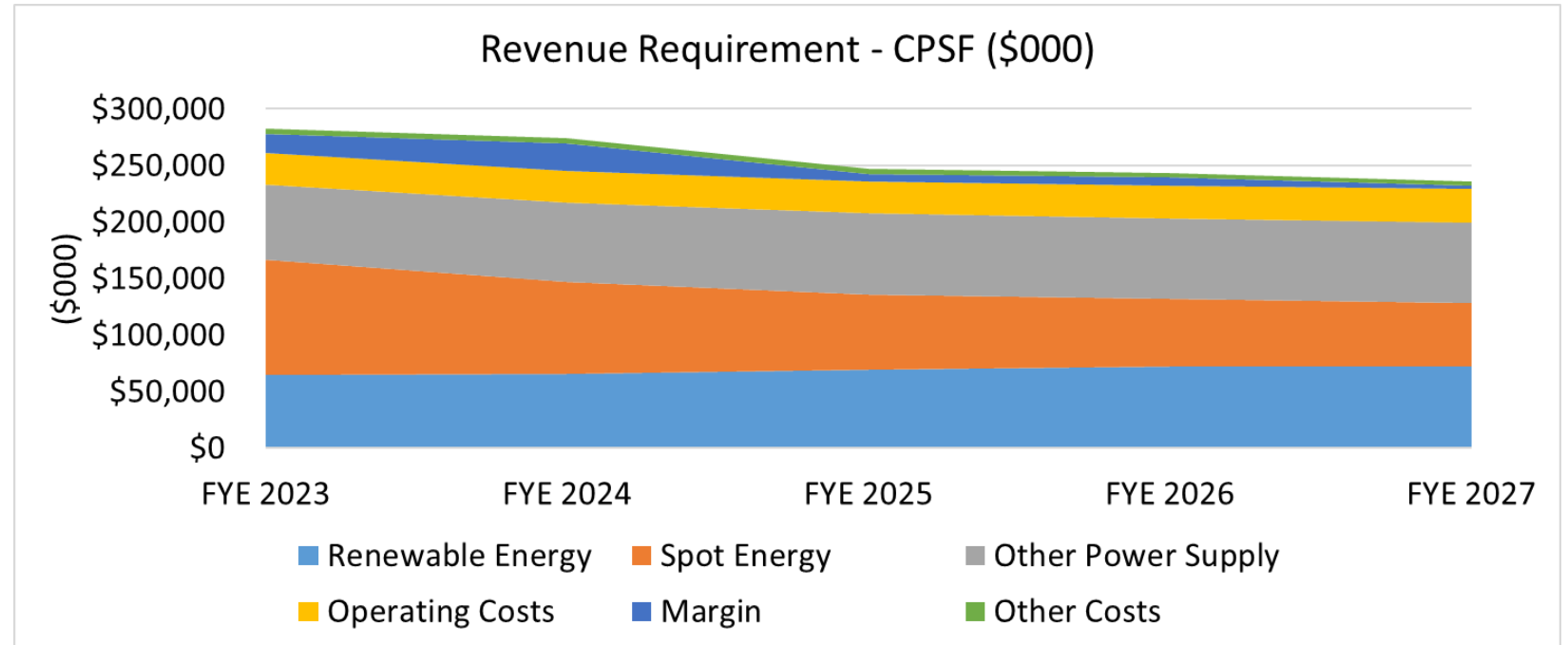
- Draft operating and capital budget
  - Will revise with final budget in December, unlikely to change trajectory
- Compliance with financial policies
  - Adopted policies for Hetchy
  - Proposed 180 days reserve policy for CleanPowerSF
- Volume data:
  - Hetchy:
    - Multi-year recovery from COVID 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

# CLEANPOWERSF

## REVENUE REQUIREMENT BY YEAR/TEST YEAR

### Recommendations/Summary:

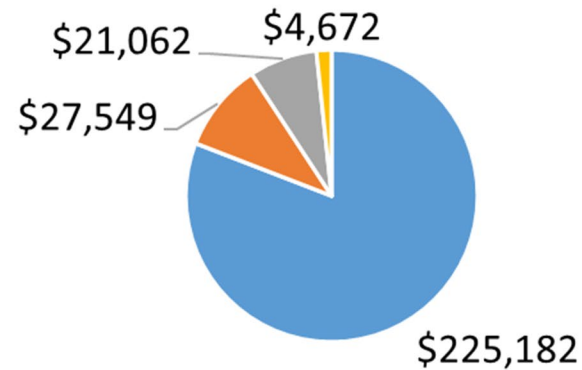
- 2-Year Test Year & Rate Plan
  - Reduce uncertainty
- Spot energy projected to decrease
  - Approximate 30% decrease over 5 years
- Contribution to reserves
  - Increases to meet target in FYE 2023, 2024
- Assumes rate increases in current budget



# CLEANPOWERSF

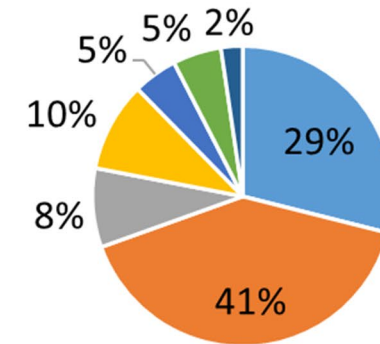
## REVENUE REQUIREMENT ELEMENTS – TEST YEAR %

Revenue Requirement from Rates



- Power Supply Costs
- Total Operating Costs
- Margin
- Other Costs

Power Supply Costs



- Renewable Energy PPA
- Spot Energy
- Resource Adequacy Contracts
- Resource Adequacy
- Contingency
- Other Supply Costs
- Voluntary RECs (incl. losses)

### 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

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

## **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

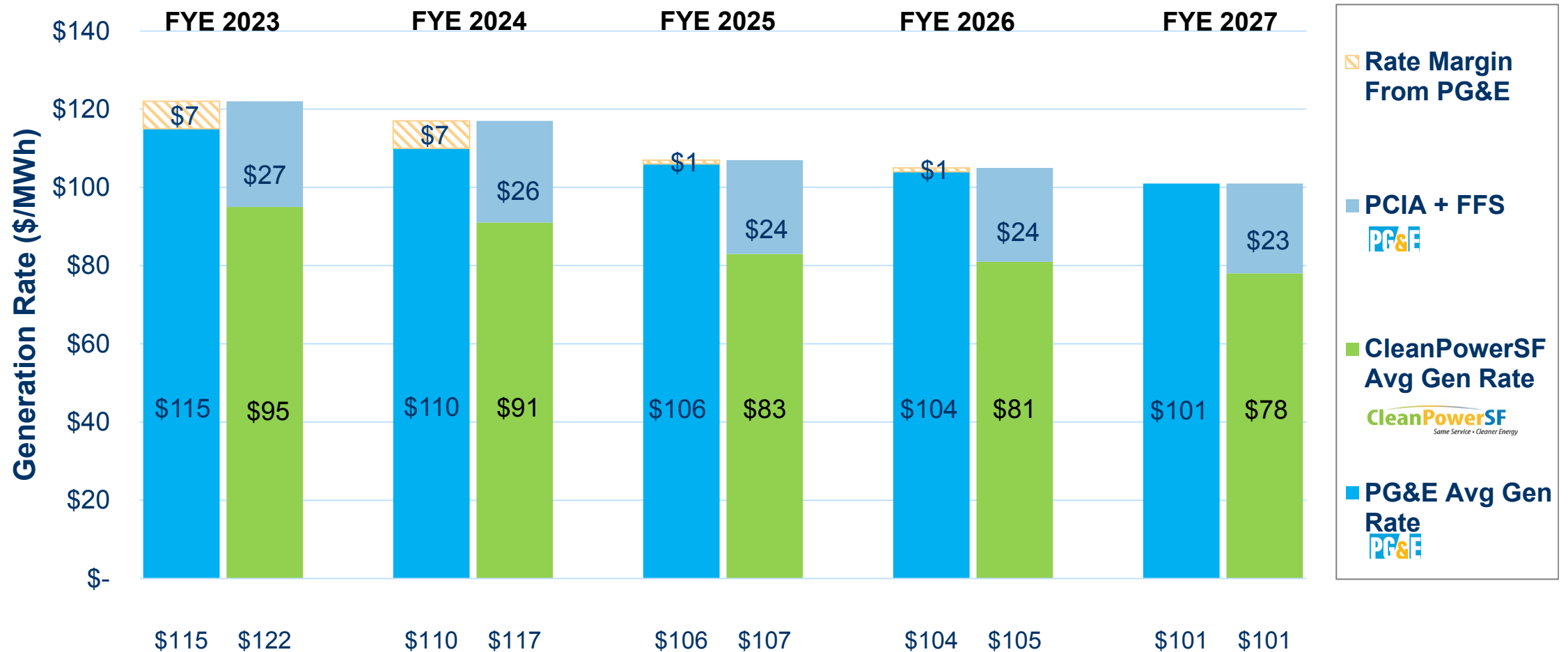
Reserves: 150 Days in 2 Years & 180 Days in 4 Years					
Item	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027
Sales in MWh	2,954,384	2,969,158	2,984,003	2,998,924	3,013,918
Annual % Changes in MWh Sales	0.50%	0.50%	0.50%	0.50%	0.50%
CleanPowerSF All-In Customer Rate (\$/MWh)	\$122.06	\$117.44	\$106.89	\$104.87	\$101.34
Days of Cash on Hand	107	150	166	180	187
EOY Fund Balance (\$ Million)	\$77.8	\$102.0	\$108.7	\$116.0	\$118.8
CleanPowerSF Rates Over PG&E Gen Rates	6.4%	6.4%	1.3%	1.3%	0.0%

### **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

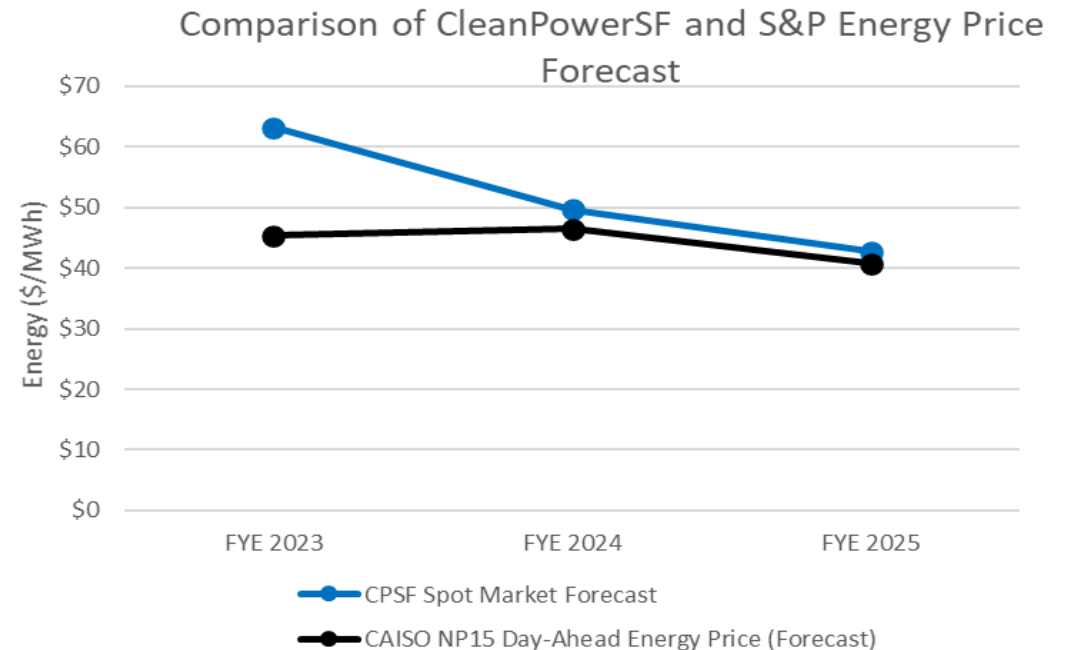
## COMPARISON OF PROPOSED GENERATION RATES TO PROJECTED PG&E



# 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



**Comparison of CleanPowerSF Spot Market to S&P Consensus Market Price**

# CLEANPOWERSF POLICY PRIORITIES

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- 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)

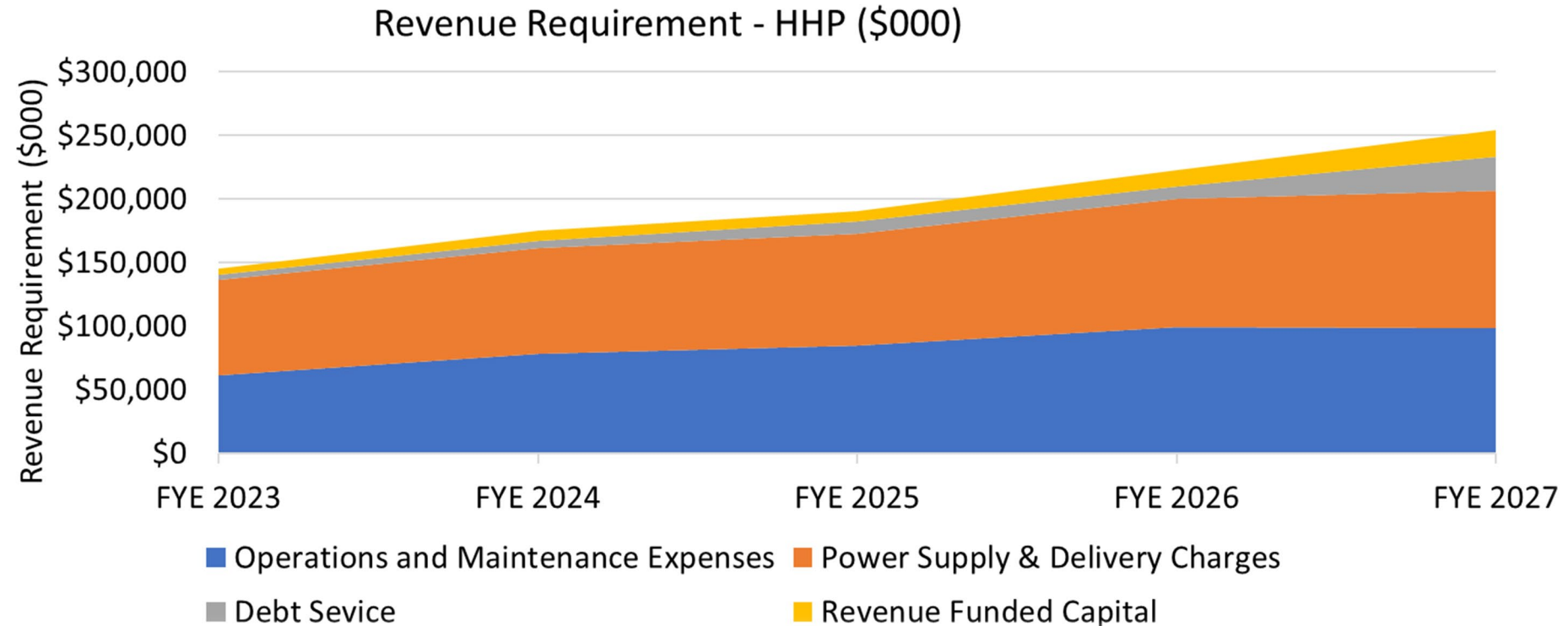


HETCH HETCHY POWER

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# HETCH HETCHY POWER

## REVENUE REQUIREMENT BY YEAR



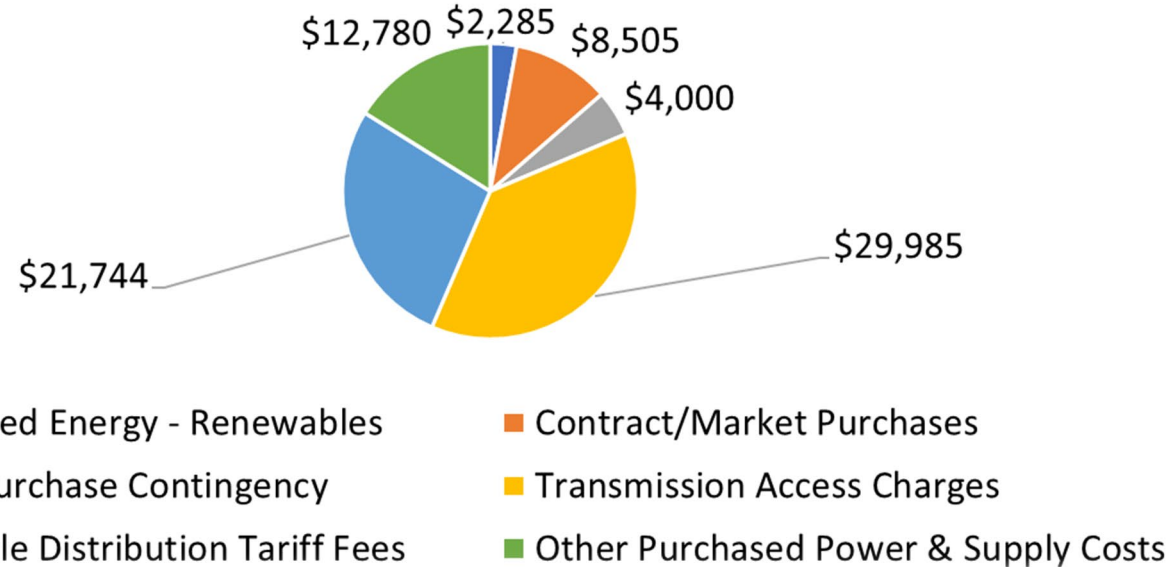
### **Summary:**

- 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

# HETCH HETCHY POWER

## REVENUE REQUIREMENT – POWER SUPPLY & DELIVERY EXPENSES (TY)

Test Year Revenue Requirement - Power Supply & Delivery Expenses  
(\$000)



### **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

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

### **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

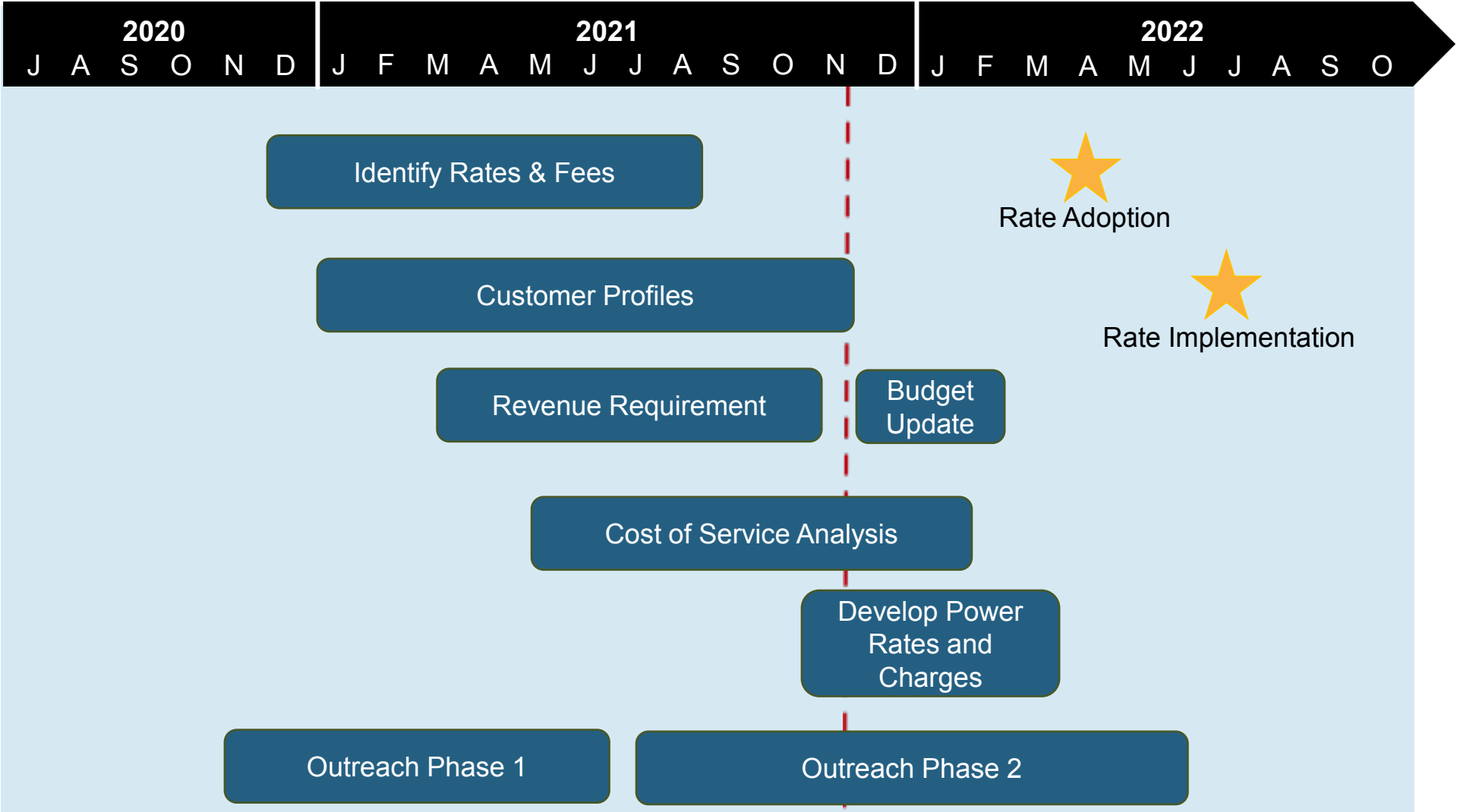
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- Reminder: Hetchy has three categories of rates: standard retail, municipal general use, and municipal enterprise.
  - Full rate strategy needs to include transition to cost of service for all three categories instead of differences present today
  - 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

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# POWER RATE STUDY TIMELINE



# WRAP UP

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- Next Steps in process:
  - Direction on scenarios
  - Continue with modeling effort
  - Complete COS
  - Begin Rate Design
- Next meeting:
  - TBD