

Public Utilities Commission of the
City and County of San Francisco

Power Enterprise

Annual Disclosure Report

For Fiscal Year Ending
June 30, 2023



San Francisco
Water
Power
Sewer

Services of the San Francisco Public Utilities Commission

March 26, 2024

VIA: MSRB EMMA

To Whom it May Concern:

Attached hereto is the Fiscal Year 2023 Annual Disclosure Report for the Public Utilities Commission of the City and County of San Francisco ("SFPUC"), Power Enterprise. This filing relates to the following associated base CUSIP number(s):

SFPUC Power Enterprise: 79771K

This Annual Disclosure Report is being provided by the SFPUC in connection with our undertaking entered into in accordance with Rule 15c2-12, promulgated by the U.S. Securities and Exchange Commission. The information provided in this Annual Disclosure Report speaks only as of its date, March 26, 2024. The delivery of this Annual Disclosure Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement. Other than as set forth in the Continuing Disclosure Agreement, SFPUC has not agreed to notify the secondary market of subsequent changes to the information in this Annual Disclosure Report ("Report").

The filing of this Report does not constitute or imply any representation (1) that any or all of the information provided is material to investors, (2) regarding any other financial, operating or other information relating to the security for the referenced securities, (3) that no changes, circumstances or events have occurred which may have a bearing on the security for the referenced securities or an investor's decision to buy, sell, or hold the referenced securities.

Any statements regarding the referenced securities, other than a statement made by the City and County of San Francisco in an official release or subsequent notice or annual report, published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board ("MSRB") or on Electronic Municipal Market Access ("EMMA"), are not authorized by the SFPUC. The SFPUC shall not be responsible for the accuracy, completeness, or fairness of any such unauthorized statement.

If you have any questions regarding this Annual Disclosure Report, please contact Nikolai J. Sklaroff, Capital Finance Director at (415) 551-2973 or by e-mail at capitalfinance@sfgwater.org.

Sincerely,

/s/ Dennis J. Herrera

Dennis Herrera
General Manager

London N. Breed
Mayor

Tim Paulson
President

Anthony Rivera
Vice President

Newsha K. Ajami
Commissioner

Sophie Maxwell
Commissioner

Kate H. Stacy
Commissioner

Dennis J. Herrera
General Manager



Enclosure

CC: Nancy L. Hom, SFPUC Chief Financial Officer/ AGM for Business Services
José Cisneros, Treasurer
Greg Wagner, Controller
David Chui, City Attorney
Anna Van Degna, Director, Office of Public Finance
Angela Calvillo, Clerk of the Board of Supervisors

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SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Tim Paulson, President
Anthony Rivera, Vice President
Newsha Ajami, Commissioner
Sophie Maxwell, Commissioner
Kate H. Stacy, Commissioner

PUBLIC UTILITIES COMMISSION OFFICIALS

Dennis Herrera, General Manager
Ronald P. Flynn, Deputy General Manager and Chief Operating Officer
Barbara Hale, Assistant General Manager, Power Enterprise
Nancy L. Hom, Assistant General Manager, Business Services and Chief Financial Officer
Masood Ordikhani, Assistant General Manager, External Affairs
Stephen Robinson, Assistant General Manager, Infrastructure Division
Joel Prather, Assistant General Manager, Wastewater Enterprise
Steven Ritchie, Assistant General Manager, Water Enterprise

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

London Breed

BOARD OF SUPERVISORS

Aaron Peskin, President

Connie Chan
Matt Dorsey
Joel Engardio
Rafael Mandelman
Myrna Melgar

Dean Preston
Hillary Ronen
Ahsha Safai
Catherine Stefani
Shamann Walton

CITY ATTORNEY

David Chiu

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Greg Wagner, Controller
Carmen Chu, City Administrator

The San Francisco Public Utilities Commission (“SFPUC”) hereby provides this Annual Disclosure Report for the fiscal year ending June 30, 2023 in connection with obligations undertaken pursuant to Continuing Disclosure Certificates for revenue bonds issued by SFPUC’s Power Enterprise, as provided in the table below. Audited Financial Statements for the years ending June 30, 2023 and June 30, 2022 are attached and submitted separately and may be viewed on EMMA or downloaded from the SFPUC website at: <https://sfpuc.org/about-us/reports/audited-financial-statements-reports>.

**SFPUC POWER ENTERPRISE
OUTSTANDING PARITY REVENUE BONDS ⁽¹⁾**
(\$000’s) †

Series of Bonds	Purpose	Date	Final CUSIP (79771K)	Original Par	Par Outstanding (June 30, 2023)
Power Revenue Bonds, 2015 Series A (Green Bonds)	Finance rehabilitation of hydropower generation facilities	May 20, 2015	AN6	\$ 32,025	\$ 32,025
Power Revenue Bonds, 2015 Series B	Finance rehabilitation of transmission & distribution lines	May 20, 2015	AY2	7,530	2,885
Power Revenue Bonds, 2021 Series A (Green Bonds)	Finance rehabilitation of hydropower generation facilities	December 21, 2021	CC8	74,280	74,280
Power Revenue Bonds, 2021 Series B	Finance rehabilitation of transmission & distribution lines	December 21, 2021	DG8	49,720	49,720
TOTAL ⁽²⁾				\$163,555	\$158,910

⁽¹⁾ Does not include the issuance of \$123,905 aggregate principal amount of Power Revenue Bonds, 2023 Series A, issued on October 12, 2023.

For the convenience of bondholders, the following table provides information related to the Power Enterprise’s outstanding indebtedness that is subordinate in lien to the Series 2015 and 2021 Power Revenue Bonds.

**SFPUC POWER ENTERPRISE
OUTSTANDING SUBORDINATE OBLIGATIONS**
(\$000’s) †

Series of Bonds	Purpose	Date	Final CUSIP (79771K)	Original Par	Par Outstanding (June 30, 2023)
2011 Qualified Energy Conservation Bonds (“QECSBs”)	Fund certain clean, renewable energy facilities	December 1, 2011	n/a	8,291	2,583
2015 New Clean Renewable Energy Bonds (“NCREBs”)	Finance installation of solar energy equipment on various City-owned facilities	October 1, 2015	n/a	4,100	1,491
TOTAL ⁽¹⁾				\$ 12,391	\$ 4,074

⁽¹⁾Total excludes Commercial Paper. The Power Enterprise maintains a \$250 million commercial paper program, which is subordinate to the outstanding 2015 Series AB and 2021 Series AB Bonds. As of June 30, 2023, the SFPUC has \$116.35 million in Power Commercial Paper Notes outstanding. The Commercial Paper Notes are secured by a \$125 million letter of credit from Bank of America, N.A, which expires March 6, 2026 and a \$125 million letter of credit from Bank of America, N.A which expires March 6, 2026. See “Subsequent Events” section for more information regarding the Power Enterprise Commercial Paper Program.

† Totals may not add due to independent rounding

The following tables are provided pursuant to the Continuing Disclosure Certificates executed in connection with the SFPUC's Power Revenue Bonds.

**SFPUC POWER ENTERPRISE
ELECTRIC SERVICE ACCOUNTS BY CUSTOMER CATEGORY
FOR FISCAL YEARS ENDED JUNE 30**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Retail and Other ⁽¹⁾	2,209	2,526	3,858	3,551	4,654
City Agencies	1,499	1,512	1,489	1,522	1,546
Moccasin/City of Riverbank	37	37	36	35	36
Modesto/Turlock Irrigation Districts	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Accounts	3,747	4,077	5,385	5,110	6,238

⁽¹⁾ Other customers include commercial and residential retail and quasi-municipal customers such as Moscone tenants, Exploratorium, and Yerba Buena Gardens and SFUSD. Increases from Fiscal Years 2018-19 to 2020-21 are new accounts in various Redevelopment Projects and the Distributed Antenna System. Decrease in accounts from Fiscal Year 2020-21 to 2021-22 due primarily to corrections to the customer type made during a transition to the Power Enterprise's new billing system. Increase in accounts from Fiscal Year 2021-22 to 2022-23 due primarily to new accounts from affordable housing units.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2023

**SFPUC POWER ENTERPRISE
HISTORICAL MUNICIPAL CUSTOMER AVERAGE RATES**

Municipal Power Service Rates	FY 2019-20	FY2020-21	FY2021-22	FY2022-23
General Use Municipal Electricity Service Rate ⁽¹⁾	7.88 ¢/kWh	8.88¢/kWh	9.88¢/kWh	12.88¢/kWh
Enterprise Departments ^{(2),(3)}	17.48¢/kWh	18.46¢/kWh	18.81¢/kWh	18.92¢/kWh

- (1) Single approved rate for FY19 through FY22. As of FY2022-23 General Use Municipal customers transitioned to respective tariff schedule depending on the classification of the Municipal Customer in which rates charged vary by seasonal periods, energy and demand line items, and other factors similar to retail rate schedules. These rates resulted in an average \$ per kWh effective rate that increases of \$0.03/kWh based on projected load demands of each Municipal Customer.
- (2) Charged comparable PG&E rates.
- (3) Estimated average rate of Enterprise Departments (non-Airport).

MUNICIPAL CUSTOMERS AVERAGE RATES

From July 2012 through June 2022, the Power Enterprise provided service to three “rate classes”: (i) General Use Municipal, (ii) Enterprise Municipal and (iii) Retail (Non-Municipal). Beginning with rates for Fiscal Year 2022-23, the SFPUC transitioned away from the legacy groupings described in the previous sentence, and instead charges all customer rates based on their customer class (i.e., residential, small commercial, medium commercial, large commercial, industrial, etc.). Accordingly, the “HISTORICAL MUNICIPAL CUSTOMERS AVERAGE RATES” table will no longer be updated moving forward. For the average electric service rates for Fiscal Year 2023-24, see “AVERAGE ELECTRIC SERVICE RATES” below.

**AVERAGE ELECTRIC SERVICE RATES⁽¹⁾
FOR FISCAL YEAR 2023-24**

Customer Classes	Retail and Enterprise Municipal⁽²⁾	General Use Municipal⁽³⁾
Residential	\$0.21278/kWh	--
Small Commercial (Demand <75 kW)	\$0.27771/kWh	\$0.15877/kWh
Medium Commercial (Demand 75-500kw)	\$0.23357/kWh	\$0.15877/kWh
Large Commercial (Demand 500-1000 kW)	\$0.20045/kWh	\$0.15877/kWh
Industrial (Demand >1000kW)	\$0.17008/kWh	\$0.15877/kWh

- (1) Average rates are calculated by dividing total revenue projections (\$) by total energy usage projections (kWh) for each applicable customer class.
- (2) Rates applicable to most retail non-municipal Power Enterprise customers (i.e., “Retail”), and certain municipal, governmental, and commercial customers, referred to as “Enterprise” customers.
- (3) Rates applicable to certain municipal, governmental, and commercial customers, referred to as “General Use” customers.

**SFPUC POWER ENTERPRISE
HISTORICAL REVENUES AND OPERATION AND MAINTENANCE EXPENSES
FOR FISCAL YEARS ENDED JUNE 30
(IN THOUSANDS) ⁽¹⁾**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
OPERATING & INVESTMENT REVENUE⁽²⁾					
Charges for services ⁽³⁾	\$143,409	\$140,680	\$136,247	\$173,105	\$203,847
Rent & concessions	152	191	136	137	156
Interest & investment income ⁽⁴⁾	6,883	5,746	24	(4,001)	3,741
Other non-operating revenues ⁽⁵⁾	10,907	25,006	19,273	15,763	13,605
Total Revenues	<u>\$161,351</u>	<u>\$171,623</u>	<u>\$155,680</u>	<u>\$ 185,004</u>	<u>\$221,349</u>
OPERATING & MAINTENANCE EXPENSE					
Salary and Fringe Benefits ⁽⁶⁾	\$37,583	\$40,712	\$40,756	\$34,646	\$39,300
Contractual services	6,086	7,742	8,726	9,604	10,819
Purchased power & related costs ⁽⁷⁾	47,437	48,831	42,693	58,252	78,658
Materials and supplies	672	2,260	1,990	2,270	2,612
Depreciation and amortization	14,484	15,723	15,627	17,628	17,877
Services of Other Departments ⁽⁸⁾	6,833	6,426	6,137	6,253	8,674
General and Administrative ⁽⁹⁾	3,660	4,370	6,074	4,654	15,642
Other	5,933	22,063	23,635	23,040	17,970
Total Operating Expenses	<u>\$122,688</u>	<u>\$148,127</u>	<u>\$145,638</u>	<u>\$ 156,347</u>	<u>\$191,552</u>
OPERATING AND INVESTMENT INCOME	<u>\$38,663</u>	<u>\$23,496</u>	<u>\$10,042</u>	<u>\$ 28,657</u>	<u>\$29,797</u>
COVERAGE CALCULATION					
Operating and Investment Income	\$38,663	\$23,496	\$10,042	\$28,657	\$29,797
-Revenue/Expenses excluded from coverage calculation ⁽²⁾	(8,478)	(12,868)	(5,731)	6,707	(2,086)
+Adjustment to Investing Activities	(2,606)	101	1,902	3,297	(15)
+Depreciation & Non-Cash Expenses	14,604	27,470	23,037	18,351	20,714
+Changes in Working Capital	(2,386)	3,243	(18,641)	(2,702)	3,785
= "Net Revenues" ⁽¹⁰⁾	<u>\$39,798</u>	<u>\$41,442</u>	<u>\$10,609</u>	<u>\$54,310</u>	<u>\$52,195</u>
+Other Available Funds ⁽²⁾	<u>31,215</u>	<u>39,119</u>	<u>23,569</u>	<u>44,315</u>	<u>110,204</u>
Funds Available for Debt Service	<u>\$71,013</u>	<u>\$80,561</u>	<u>\$34,178</u>	<u>\$98,625</u>	<u>\$162,399</u>
Revenue Bond Debt Service	\$2,569	\$2,568	\$2,567	\$2,565	\$2,567
DEBT SERVICE COVERAGE⁽¹²⁾					
Including "Other Available Funds" ⁽¹¹⁾⁽¹³⁾	27.64x	31.37x	13.31x	38.45x	63.29x
Current Basis ⁽¹⁴⁾	15.49x	13.44x	3.67x	20.71x	20.11x

⁽¹⁾ Operating and Investment Income presented in this table differs from the Change in Net Position presented in the Statement of Revenues, Expenses and Changes in Net Position in the Audited Financial Statements. This table may exclude certain elements of non-operating revenue and expenses included in the Statements of Revenues, Expenses and Changes in Net Position. Revenues and expenses associated with Treasury

Island Development, Transbay Cable Proceeds, cap and trade allowances, power system impact mitigation, federal subsidies, and other revenues deemed unavailable to pay debt service have been excluded. LCFS (Low Carbon Fuel Standard) Revenue is excluded in Current Basis coverage but included for Indenture Basis coverage calculation.

- (2) Excludes operating results for CleanPowerSF.
- (3) Increase in Fiscal Year 2022-23 mainly due to higher wholesale electricity sales mostly from CAISO credits, increase in sales to City departments, and sales to retail customers due to higher consumption.
- (4) Increase in Fiscal Year 2022-23 mainly due to decrease in unrealized loss attributed to improved market value of cash and investments held in the City Treasury.
- (5) Decrease in Fiscal Year 2022-23 due to exclusion of certain Federal and State grants revenues.
- (6) Increase in Fiscal Year 2022-23 mainly due to higher pension obligations based on actuarial reports.
- (7) Increase in Fiscal Year 2022-23 mainly due to higher power purchase costs.
- (8) Increase in Fiscal Year 2022-23 mainly due to higher legal services costs from City Attorney's office.
- (9) Increase in Fiscal Year 2022-23 mainly due to higher litigation expenses.
- (10) "Net Revenue" is presented on a cash basis.
- (11) Coverage does not include debt service on the Subordinate Obligations, the Power Enterprise's share of lease payments associated with the 2009 Golden Gate COPs and debt service on Commercial Paper Notes.
- (12) Per the Indenture, in addition to current year cash flow, coverage calculation includes certain "Available Funds," which are unencumbered amounts, and cash and investments held by the Treasurer, that the SFPUC reasonably expects would be available, as of the date of calculation, to pay debt service.
- (13) Unaudited. Calculated as ratio between Net Revenues plus "Available Funds" over debt service on all senior lien obligations.
- (14) Unaudited. Calculated as ratio between Net Revenues over debt service on all senior lien obligations; excludes "Available Funds." LCFS revenue is excluded in Current Basis coverage; in Fiscal Year 2019-20, 2020-21, 2021-22, and 2022-23 LCSF \$6,920, \$1,181, \$1,184, and \$593 (all in thousands).

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2023 and SFPUC Financial Services

SUBSEQUENT EVENTS

(in \$000's)

1. **Power Revenue Bonds, 2023 Series A Issuance**

In October 2023, the SFPUC issued its San Francisco Power Revenue Bonds, 2023 Series A with principal of \$123,905 to finance or refinance Power Enterprise projects through the refunding and retirement of commercial paper issued as interim financing for such projects in furtherance of the Power Enterprise Capital Improvement Program.

Generating Clean Energy
for Vital Services.



San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

Hetch Hetchy Water and Power and CleanPowerSF

Basic Financial Statements June 30, 2023 And 2022
(With Independent Auditors' Report Thereon)



HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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Independent Auditor's Report

Honorable Mayor and the Board of Supervisors
City and County of San Francisco, California

Opinions

We have audited the financial statements of each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Hetch Hetchy as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hetch Hetchy, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

As discussed in Note 1, the financial statements present only Hetch Hetchy and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective July 1, 2021, Hetch Hetchy adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of Hetch Hetchy as of and for the year ended June 30, 2022, were audited by another auditor, who expressed an unmodified opinion on those statements on January 27, 2023.

Responsibilities of Management for the Financial Statements

Hetch Hetchy's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hetch Hetchy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis*, as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2023 on our consideration of Hetch Hetchy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion

on the effectiveness of Hetch Hetchy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hetch Hetchy's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 26, 2023

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

This section presents management's analysis of San Francisco Hetch Hetchy Water and Power and CleanPowerSF Enterprise's (Hetch Hetchy or the Enterprise) financial condition and activities as of and for fiscal years ended June 30, 2023 and 2022. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

The information in this MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Capital Assets
- Debt Administration
- Rates and Charges
- Request for Information

Organization and Business

SFPUC is a department of the City that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Wastewater, and Hetch Hetchy. The Enterprise was established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. The Enterprise operates the Hetch Hetchy project, which provides both electricity generation and upcountry water service; and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity.

In normal rain years, 85% of San Francisco's drinking water starts out as snow falling on 459 square miles of watershed land in Yosemite National Park and the City may supplement water supply from an additional 193 square miles of watershed in Yosemite National Park and the Stanislaus National Forest during extremely dry years. As the snow melts, it collects in the SFPUC's storage reservoirs, then flows by gravity through over 150 miles of pipelines and tunnels, it turns the turbines in three hydroelectric powerhouses, generating approximately 1.3 billion kilowatt hours of electricity per year. The electricity travels over 160 miles of transmission and distribution lines from the upcountry powerhouses to the San Francisco Bay Area.

Approximately 61% of the electricity generated by Hetchy Power was used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency (SFMTA), Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport and its tenants, Zuckerberg San Francisco General Hospital and Trauma Center, City streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The remaining 39% of electricity generated was sold to CleanPowerSF and the wholesale electric market.

Hetch Hetchy

Hetch Hetchy provides reliable, high-quality water and electric energy to the City and other customers, protects watershed resources in cooperation with Federal agencies, operates and maintains facilities to a high standard of safety and reliability, and maximizes revenue opportunities within approved levels of risk.

Hetch Hetchy, a stand-alone enterprise is comprised of three funds: 1) Hetch Hetchy Water (Hetchy Water) upcountry operations and water system; 2) Hetch Hetchy Power (Hetchy Power), also referred to as the

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Power Enterprise, which is wholly contained within the Hetch Hetchy fund; and 3) CleanPowerSF, which is an enterprise fund to aggregate the buying power of customers within San Francisco to purchase renewable energy sources or clean power, is reported as a separate fund of Hetch Hetchy. A number of the facilities are joint assets and used for both water and power generation.

Hetchy Water

For efficiency and to streamline the coordination of upcountry water and power operations, Hetchy Water operates upcountry and joint asset facilities, managing resources in an environmentally responsible manner to a high standard of safety and reliability while meeting regulatory requirements. It is responsible for operating the Hetch Hetchy Reservoir, the main source of water for the Hetch Hetchy system. Hetchy Water operates, maintains, and improves water and power facilities, smaller dams and reservoirs, water transmission systems, power generation facilities, and power transmission assets, including transmission lines to the Newark substation. Hetchy Water delivers high-quality water from upcountry downhill to the Bay Area while optimizing the resulting generation of clean hydropower as water is transported through the system. It maintains land and properties consistent with public health and neighborhood concerns.

Hetchy Power

The core business of Hetchy Power, as a municipal department, is to provide adequate and reliable supplies of electric power to meet the electricity needs of City and County of San Francisco's customers, and to offer, when available, power for the municipal loads and agricultural pumping demands consistent with prescribed contractual obligations and federal law.

Hetchy Power's portfolio consists of hydroelectric generation, onsite solar at SFPUC and other City facilities, generation using bio-methane produced at SFPUC wastewater treatment facilities, and third-party purchases. Consistent with its commitment to the development of cleaner and greener power, and to address environmental concerns and community objectives, Hetchy Power continues to evaluate and expand its existing resource base to include additional renewables, distributed generation, and energy efficiency programs. As part of its mission and core functions, Hetchy Power provides reliable energy services at reasonable cost to customers, with attention to environmental effects and community concerns.

Hetch Hetchy Joint

A portion of Hetch Hetchy's operating budget, capital program, and assets, provides benefit to both Hetchy Power and Hetchy Water. This is commonly referred to as joint costs and joint assets. Both operating and capital costs that jointly benefit both funds are allocated 55% to Hetchy Power and 45% to Hetchy Water, as has historically been done by the SFPUC.

CleanPowerSF

CleanPowerSF is a community choice aggregation (CCA) program made possible by the 2002 passage of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation since May 2016. The core business is to provide greener electricity generation to residential and commercial consumers that are retail distribution customers of Pacific Gas and Electric Company (PG&E) in San Francisco. The SFPUC intends CleanPowerSF to be financially independent, with ability to set rates and charges with adequate revenues, and to issue debt to support its operations and future projects. CleanPowerSF is discretely presented as a fund of the Enterprise starting fiscal year 2017.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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Through CleanPowerSF, SFPUC seeks to achieve several complementary goals, including affordable and competitive electricity generation rates, a diverse electricity resource portfolio that is comprised of renewable and other clean sources of supply, and high-quality customer service. The program serves more than 380,000 customer accounts and provides San Francisco with an electricity supply from its default "Green" product that is at least 50% California State Renewables Portfolio Standard (RPS)-eligible. Additionally, CleanPowerSF offers "SuperGreen", a 100% RPS-eligible electricity supply, that is available to customers for a small additional cost. On June 1, 2022, CleanPowerSF opened enrollment for its "SuperGreen Saver" product, which provides eligible low-income ratepayers residing in neighborhoods that meet the State of California's criteria as Disadvantaged Communities with 100% RPS-eligible electricity at a 20% bill discount.

Overview of the Financial Statements

Hetch Hetchy's financial statements include the following:

Statements of Net Position present information on Hetch Hetchy's assets, deferred outflows, liabilities, and deferred inflows as of year-end, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Hetch Hetchy is improving or worsening.

While the *Statements of Net Position* provide information about the nature and amount of resources and obligations as of year-end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of Hetch Hetchy's operations over the course of the fiscal year and information as to how the net position changed during the year. These statements can be used as an indicator of the extent to which Hetch Hetchy has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements from some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expenses of employee earned but unused vacation leave.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operational, capital financing, non-capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not presented on the face of the financial statements.

Financial Analysis

Financial Highlights for Fiscal Year 2023

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by \$901,552.
- Net position increased by \$82,798 or 10.0% during the fiscal year.

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- Capital assets, net of accumulated depreciation and amortization, increased by \$80,057 or 10.2% to \$866,700.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$103,030 or 21.4% to \$583,477.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$65,584 or 13.9% to \$536,343.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by \$269,248.
- Net position increased by \$24,946 or 10.0% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$18,747 or 9.3% to \$219,754.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$3,385 or 6.9% to \$52,697.
- Operating expenses, excluding other non-operating expenses, decreased by \$2,288 or 4.4% to \$50,011.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by \$512,386.
- Net position increased by \$24,171 or 4.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$61,310 or 10.5% to \$646,946.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$30,761 or 17.8% to \$204,003.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$35,209 or 22.5% to \$191,552.

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by \$119,918.
- Net position increased by \$33,681 or 39.9% during the fiscal year.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2023.

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- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$68,884 or 26.7% to \$326,777.
- Operating expenses, excluding interest expenses increased by \$32,663 or 12.5% to \$294,780.

Financial Highlights for Fiscal Year 2022

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by \$893,580.
- Net position increased by \$43,483 or 5.5% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$117,106 or 17.5% to \$786,643.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$89,276 or 22.8% to \$480,447.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$61,889 or 15.1% to \$470,759.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by \$276,425.
- Net position increased by \$24,521 or 10.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$23,526 or 13.3% to \$201,007.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$2,222 or 4.7% to \$49,312.
- Operating expenses, excluding other non-operating expenses, increased by \$1,780 or 3.5% to \$52,299.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by \$527,477.
- Net position increased by \$21,719 or 4.6% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$93,580 or 19.0% to \$585,636.

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- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$36,859 or 27.0% to \$173,242.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$10,703 or 7.3% to \$156,343

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by \$89,678.
- Net position decreased by \$2,757 or 3.2% during the fiscal year.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2022.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$50,195 or 24.2% to \$257,893.
- Operating expenses, excluding interest expenses increased by \$49,406 or 23.2% to \$262,117.

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Financial Position

The following tables summarize Hetch Hetchy's changes in net position:

**Table 1A - Consolidated Hetch Hetchy
Comparative Condensed Net Position
June 30, 2023, 2022, and 2021**

	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Total assets:					
Current and other assets	\$ 543,346	500,800	469,507	42,546	31,293
Capital assets, net of accumulated depreciation and amortization	866,700	786,643	669,537	80,057	117,106
Total assets	1,410,046	1,287,443	1,139,044	122,603	148,399
Deferred outflows of resources:					
Pensions	20,976	15,731	18,133	5,245	(2,402)
Other post-employment benefits	8,226	8,069	8,719	157	(650)
Total deferred outflows of resources	29,202	23,800	26,852	5,402	(3,052)
Liabilities:					
Current liabilities:					
Bonds	1,590	1,966	1,928	(376)	38
Certificates of participation	445	427	405	18	22
Commercial paper	—	40,019	114,671	(40,019)	(74,652)
Other liabilities	104,704	94,902	83,058	9,802	11,844
Subtotal current liabilities	106,739	137,314	200,062	(30,575)	(62,748)
Long-term liabilities:					
Bonds	189,342	192,520	44,384	(3,178)	148,136
Certificates of participation	12,148	12,593	13,026	(445)	(433)
Commercial paper	116,352	—	—	116,352	—
Other liabilities	83,913	51,436	114,392	32,477	(62,956)
Subtotal long-term liabilities	401,755	256,549	171,802	145,206	84,747
Total liabilities:					
Bonds	190,932	194,486	46,312	(3,554)	148,174
Certificates of participation	12,593	13,020	13,431	(427)	(411)
Commercial paper	116,352	40,019	114,671	76,333	(74,652)
Other liabilities	188,617	146,338	197,450	42,279	(51,112)
Total liabilities	508,494	393,863	371,864	114,631	21,999
Deferred inflows of resources:					
Related to pensions	10,500	82,029	3,288	(71,529)	78,741
Other post-employment benefits	9,775	7,670	6,546	2,105	1,124
Total deferred inflows of resources	20,275	89,699	9,834	(69,424)	79,865
Net position:					
Net investment in capital assets	556,035	553,169	500,547	2,866	52,622
Restricted for debt service	56	140	99	(84)	41
Restricted for capital projects	5,233	—	—	5,233	—
Restricted for other purposes	—	32,749	—	(32,749)	32,749
Unrestricted	349,155	241,623	283,552	107,532	(41,929)
Total net position	\$ 910,479	827,681	784,198	82,798	43,483

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*.

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Table 1B - Hetchy Water
Comparative Condensed Net Position
June 30, 2023, 2022, and 2021

	<u>2023</u>	<u>Restated 2022*</u>	<u>2021</u>	<u>2023-2022 Change</u>	<u>2022-2021 Change</u>
Total assets:					
Current and other assets	\$ 91,112	110,066	98,225	(18,954)	11,841
Capital assets, net of accumulated depreciation and amortization	<u>219,754</u>	<u>201,007</u>	<u>177,481</u>	<u>18,747</u>	<u>23,526</u>
Total assets	<u>310,866</u>	<u>311,073</u>	<u>275,706</u>	<u>(207)</u>	<u>35,367</u>
Deferred outflows of resources:					
Pensions	8,858	6,696	7,799	2,162	(1,103)
Other post-employment benefits	<u>3,248</u>	<u>3,272</u>	<u>3,725</u>	<u>(24)</u>	<u>(453)</u>
Total deferred outflows of resources	<u>12,106</u>	<u>9,968</u>	<u>11,524</u>	<u>2,138</u>	<u>(1,556)</u>
Liabilities:					
Current liabilities	9,888	17,553	15,873	(7,665)	1,680
Long-term liabilities	<u>31,730</u>	<u>17,095</u>	<u>43,623</u>	<u>14,635</u>	<u>(26,528)</u>
Total liabilities	<u>41,618</u>	<u>34,648</u>	<u>59,496</u>	<u>6,970</u>	<u>(24,848)</u>
Deferred inflows of resources:					
Related to pensions	4,142	34,477	988	(30,335)	33,489
Other post-employment benefits	<u>3,084</u>	<u>2,734</u>	<u>2,085</u>	<u>350</u>	<u>649</u>
Total deferred inflows of resources	<u>7,226</u>	<u>37,211</u>	<u>3,073</u>	<u>(29,985)</u>	<u>34,138</u>
Net position:					
Net investment in capital assets	219,754	201,007	177,481	18,747	23,526
Restricted for capital projects	5,233	—	—	5,233	—
Restricted for other purposes	—	13,912	—	(13,912)	13,912
Unrestricted	<u>49,141</u>	<u>34,263</u>	<u>47,180</u>	<u>14,878</u>	<u>(12,917)</u>
Total net position	<u>\$ 274,128</u>	<u>249,182</u>	<u>224,661</u>	<u>24,946</u>	<u>24,521</u>

*Restated per GASB Statement No. 96, SBITAs.

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**Table 1C - Hetchy Power
Comparative Condensed Net Position
June 30, 2023, 2022, and 2021**

	<u>2023</u>	<u>Restated 2022*</u>	<u>2021</u>	<u>2023-2022 Change</u>	<u>2022-2021 Change</u>
Total assets:					
Current and other assets	\$ 294,298	260,816	249,365	33,482	11,451
Capital assets, net of accumulated depreciation and amortization	<u>646,946</u>	<u>585,636</u>	<u>492,056</u>	<u>61,310</u>	<u>93,580</u>
Total assets	<u>941,244</u>	<u>846,452</u>	<u>741,421</u>	<u>94,792</u>	<u>105,031</u>
Deferred outflows of resources:					
Pensions	10,826	8,183	9,531	2,643	(1,348)
Other post-employment benefits	<u>3,969</u>	<u>3,999</u>	<u>4,552</u>	<u>(30)</u>	<u>(553)</u>
Total deferred outflows of resources	<u>14,795</u>	<u>12,182</u>	<u>14,083</u>	<u>2,613</u>	<u>(1,901)</u>
Liabilities:					
Current liabilities:					
Bonds	1,590	1,966	1,928	(376)	38
Certificates of participation	445	427	405	18	22
Commercial paper	—	40,019	114,671	(40,019)	(74,652)
Other liabilities	<u>63,355</u>	<u>48,688</u>	<u>49,450</u>	<u>14,667</u>	<u>(762)</u>
Subtotal current liabilities	<u>65,390</u>	<u>91,100</u>	<u>166,454</u>	<u>(25,710)</u>	<u>(75,354)</u>
Long-term liabilities:					
Bonds	189,342	192,520	44,384	(3,178)	148,136
Certificates of participation	12,148	12,593	13,026	(445)	(433)
Commercial paper	116,352	—	—	116,352	—
Other liabilities	<u>45,626</u>	<u>22,762</u>	<u>55,425</u>	<u>22,864</u>	<u>(32,663)</u>
Subtotal long-term liabilities	<u>363,468</u>	<u>227,875</u>	<u>112,835</u>	<u>135,593</u>	<u>115,040</u>
Total liabilities:					
Bonds	190,932	194,486	46,312	(3,554)	148,174
Certificates of participation	12,593	13,020	13,431	(427)	(411)
Commercial paper	116,352	40,019	114,671	76,333	(74,652)
Other liabilities	<u>108,981</u>	<u>71,450</u>	<u>104,875</u>	<u>37,531</u>	<u>(33,425)</u>
Total liabilities	<u>428,858</u>	<u>318,975</u>	<u>279,289</u>	<u>109,883</u>	<u>39,686</u>
Deferred inflows of resources:					
Related to pensions	5,062	42,138	1,207	(37,076)	40,931
Other post-employment benefits	<u>3,769</u>	<u>3,342</u>	<u>2,548</u>	<u>427</u>	<u>794</u>
Total deferred inflows of resources	<u>8,831</u>	<u>45,480</u>	<u>3,755</u>	<u>(36,649)</u>	<u>41,725</u>
Net position:					
Net investment in capital assets	336,281	352,162	323,066	(15,881)	29,096
Restricted for debt service	56	140	99	(84)	41
Restricted for other purposes	—	17,004	—	(17,004)	17,004
Unrestricted	<u>182,013</u>	<u>124,873</u>	<u>149,295</u>	<u>57,140</u>	<u>(24,422)</u>
Total net position	<u>\$ 518,350</u>	<u>494,179</u>	<u>472,460</u>	<u>24,171</u>	<u>21,719</u>

*Restated per GASB Statement No. 96, SBITAs.

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**Table 1D - CleanPowerSF
Comparative Condensed Net Position
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	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Total assets:					
Current and other assets	\$ 157,936	129,918	121,917	28,018	8,001
Total assets	<u>157,936</u>	<u>129,918</u>	<u>121,917</u>	<u>28,018</u>	<u>8,001</u>
Deferred outflows of resources:					
Pensions	1,292	852	803	440	49
Other post-employment benefits	1,009	798	442	211	356
Total deferred outflows of resources	<u>2,301</u>	<u>1,650</u>	<u>1,245</u>	<u>651</u>	<u>405</u>
Liabilities:					
Current liabilities	31,461	28,661	17,735	2,800	10,926
Long-term liabilities	6,557	11,579	15,344	(5,022)	(3,765)
Total liabilities	<u>38,018</u>	<u>40,240</u>	<u>33,079</u>	<u>(2,222)</u>	<u>7,161</u>
Deferred inflows of resources:					
Related to pensions	1,296	5,414	1,093	(4,118)	4,321
Other post-employment benefits	2,922	1,594	1,913	1,328	(319)
Total deferred inflows of resources	<u>4,218</u>	<u>7,008</u>	<u>3,006</u>	<u>(2,790)</u>	<u>4,002</u>
Net position:					
Restricted for other purposes	—	1,833	—	(1,833)	1,833
Unrestricted	118,001	82,487	87,077	35,514	(4,590)
Total net position	<u>\$ 118,001</u>	<u>84,320</u>	<u>87,077</u>	<u>33,681</u>	<u>(2,757)</u>

*Restated per GASB Statement No. 96, SBITAs.

Net Position, Fiscal Year 2023

Hetch Hetchy

Hetch Hetchy's net position of \$910,479 increased by \$82,798 or 10.0% from prior year resulting from an increase of \$128,005 in total assets and deferred outflows of resources, offset by a net increase of \$45,207 in total liabilities and deferred inflows of resources (see Table 1A). Current and other assets were \$543,346, a \$42,546 or 8.5% increase from prior year, mainly due to increased cash collections from charges for services for Hetchy Power and CleanPowerSF. Hetch Hetchy adopted GASB Statement No. 96, SBITAs and recognized subscription assets net of accumulated amortization of \$281 and liabilities of \$286 as of June 30, 2023. See Note 10 for additional information about SBITAs.

Capital assets, net of accumulated depreciation and amortization, increased by \$80,057 or 10.2% to \$866,700 primarily from construction and capital improvement activities for the Moccasin Powerhouse Rewind Project and the Mountain Tunnel Improvement Project. Deferred outflows of resources increased by \$5,402 due to increases of \$5,245 in pensions and \$157 in other post-employment benefits (OPEB) based on actuarial reports.

Total liabilities increased by \$114,631 or 29.1% to \$508,494. Outstanding debt increased by \$72,352 from additional \$76,333 commercial paper issuances offset by \$3,554 in bonds and \$427 in Certificates of Participation. Other liabilities increased by \$42,279. Deferred inflows of resources decreased by \$69,424 due to a decrease of \$71,529 in relation to pensions offset by an increase of \$2,105 in OPEB based on actuarial reports.

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Hetchy Water

Hetchy Water's net position of \$274,128 increased by \$24,946 or 10.0% resulting from a net decrease of \$23,015 in total liabilities and deferred inflows of resources and a net increase of \$1,931 in total assets and deferred outflows of resources (see Table 1B). The decrease of \$18,954 in current and other assets was attributed to decreases of \$13,912 in restricted net pension assets based on actuarial report, \$6,238 in cash and investment with City Treasury mainly from higher cash paid to suppliers and contractors for goods and services, \$177 in subscription assets net of accumulated amortization per implementation of GASB Statement No. 96, SBITAs, \$129 in prepaid charges, advances, and other receivables due to prepayments made in prior year to California Department of Water Resources for dam fees included fiscal year 2023, and \$70 in charges for services receivables due to lower consumption from Lawrence Livermore National Laboratory. These decreases were offset by increases of \$1,211 in State grants receivable for the 2018 Moccasin Storm Project related to emergency repairs, \$255 in interest receivables attributed to improved market value of investments and higher interest rates, \$84 in lease right-to-use assets net of accumulated amortization, and \$22 in inventory due to more purchases than issuances during the fiscal year.

Capital assets, net of accumulated depreciation and amortization, increased by \$18,747 or 9.3% to \$219,754 primarily from construction and capital improvement activities for the Mountain Tunnel Improvement Project and San Joaquin Pipeline Valve and Safe Entry Improvement Project. Deferred outflows of resources increased by \$2,138 due to an increase of \$2,162 in pensions offset by a decrease of \$24 in OPEB based on actuarial reports.

Hetchy Water's total liabilities increased by \$6,970 or 20.1% to \$41,618, as explained by increases of \$14,105 in net pension liability based on actuarial estimates, \$667 in OPEB obligations based on actuarial assumptions, \$242 in employee related benefits due to 5.25% increase in cost of living adjustment (COLA), \$76 in lease liability and \$73 in general liability based on actuarial estimates. These increases were offset by decreases of \$7,421 in unrestricted payables mainly due to lower license and permit fees to the National Park Service, \$577 in restricted payables due to lower project spending, \$170 in subscription liability per implementation of GASB Statement No. 96, SBITAs, \$24 in unearned revenues, refunds, and other mainly due to recognition of grant advance as revenue for the Rim Fire project, and \$1 in interest payable related to SBITAs (see Note 10).

Deferred inflows of resources decreased by \$29,985 due to a decrease of \$30,335 in relation to pensions offset by an increase of \$350 in OPEB based on actuarial reports.

Hetchy Power

Hetchy Power's net position of \$518,350 increased by \$24,171 or 4.9% resulting from an increase of \$97,405 in total assets and deferred outflows of resources, offset by a net increase of \$73,234 in total liabilities and deferred inflows of resources (see Table 1C). Increase of \$33,482 in current and other assets was attributed to increases of \$47,496 in cash and investments mainly due to higher collections from billings, \$2,088 in charges for services receivables mainly due to pending collections from non-work order City departments, \$1,302 in interest receivables attributed to improved market value of investments and higher interest rates, \$348 increase in State grants receivable mainly for the 2018 Moccasin Storm Project related to emergency repairs, and \$105 in lease right-to-use assets net of accumulated amortization.

These increases were offset by decreases of \$17,004 in restricted net pension assets based on actuarial report, \$318 in due from other City departments mainly due to repayments from Moscone Renewable Energy Projects, \$182 in prepaid charges, advances, and other receivables mainly due to prepayments

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made in prior year to California Department of Water Resources for dam fees included fiscal year 2023, \$152 in restricted interest and other receivables mainly due to lower IRS bond interest subsidy accrual, \$142 in subscription assets net of accumulated amortization per implementation of GASB Statement No. 96, SBITAs, and \$59 in inventory due to more issuances than purchases during the fiscal year.

Capital assets, net of accumulated depreciation and amortization, increased by \$61,310 or 10.5% to \$646,946 primarily from construction and capital improvement activities for the Moccasin Powerhouse Rewind Project and the Bay Corridor Project. Deferred outflows of resources increased by \$2,613 due to an increase of \$2,643 in pensions offset by a decrease of \$30 in OPEB based on actuarial reports.

Hetchy Power's total liabilities of \$428,858 increased by \$109,883 or 34.4%. As of June 30, 2023, outstanding debt increased by \$72,352 due to \$76,333 commercial paper issuance for Hetchy Power facilities, offset by \$2,397 from bonds and certificates of participation principal repayments and \$1,584 in amortization of premium and discount. Other liabilities of \$108,981, such as payables to vendors, employees, contractors, and other government agencies for goods and services under contractual agreements, increased by \$37,531 or 52.5%, mainly due to increases of \$17,239 in net pension liability based on actuarial estimates, \$8,302 in unrestricted payables mainly due to higher power purchases, \$5,127 in general liability based on actuarial estimates, \$4,060 in restricted payables to vendors and contractors due to higher year-end expense accruals for capital projects mainly for the Winter Storm projects and Moccasin Powerhouse projects, \$1,566 in due to other City departments mainly for claim settlement reimbursement to SFMTA, \$815 in OPEB obligations based on actuarial assumptions, \$464 in employee related benefits due to 5.25% increase in COLA, \$268 increase in interest payable related to 2021 Series AB revenue bond issued in prior year, and \$94 in lease liability. These increases were offset by decreases of \$267 in unearned revenues, refunds, and other, and \$137 in subscription liability per implementation of GASB Statement No. 96, SBITAs (see Note 10). Decrease of \$267 in unearned revenues, refunds, and other was mainly due to \$436 deposit refund to developer for custom work project at 1064 Mission Street, \$126 in refund for Hunter's Point construction project, and \$43 in grant advance due to recognition of Rim Fire State grant revenue, offset by increases of \$170 in prepayments from Distributed Antenna System (DAS) program, and \$168 in customer prepayments.

Deferred inflows of resources decreased by \$36,649 due to a decrease of \$37,076 in relation to pensions offset by an increase of \$427 in OPEB based on actuarial reports.

CleanPowerSF

CleanPowerSF's net position of \$118,001 increased by \$33,681 or 39.9%, resulting from an increase of \$28,669 in total assets and deferred outflows of resources and a decrease of \$5,012 in total liabilities and deferred inflows of resources (see Table 1D). Increase in total assets of \$28,018 was due to increases of \$42,423 in cash and investments with City Treasury mainly attributed to higher collections from billings and \$498 in interest receivable attributed to improved market value of investments and higher interest rates. These increases were offset by decrease of \$7,078 in charges for services receivables due to \$5,485 lower unbilled accrual and \$1,593 increase in allowance for uncollectible due to higher aged receivables greater than 120 days. Prepaid charges and other receivables decreased by \$5,721, of which \$5,463 in lower prepaid for power purchases and \$4,258 in prepayments required by PG&E in prior year offset by \$4,000 in collateral paid to the California Independent System Operator's (CAISO) to satisfy financial security requirements. Restricted net pension assets decreased by \$1,833 based on actuarial report, \$230 in lease right-to-use assets net of accumulated amortization due to lease termination of 544 Golden Gate, and \$41 in subscription assets net of accumulated amortization per implementation of GASB Statement No. 96, SBITAs.

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Deferred outflows of resources increased by \$651 due to increases of \$440 in pensions and \$211 in OPEB based on actuarial reports.

Total liabilities decreased by \$2,222 or 5.5% to \$38,018, mainly explained by \$9,000 cash collateral returned for power purchase agreement, \$232 decrease in lease liability related to the lease termination at 544 Golden Gate, \$39 decrease in subscription liability per implementation of GASB Statement No. 96, SBITAs, and \$1 decrease in interest payable related to SBITAs (See Note 10). These decreases were offset by increases of \$2,124 in net pension liability based on actuarial estimates, \$1,950 in unearned revenues, refunds, and other, \$1,789 in OPEB obligations based on actuarial assumptions, \$818 in payables mainly due to higher power purchases, \$367 in employee related benefits due to 5.25% increase in COLA, and \$2 in general liability based on actuarial estimates. Increases of \$1,950 in unearned revenues, refunds, and other was mainly due to increases of \$2,075 received from California Public Utilities Commission (CPUC) for the Community Food Service Energy Efficiency Program and Disadvantaged Communities Programs, \$64 in customer prepayments, and \$5 in energy tax payable, offset by a decrease of \$194 in net energy metering credits to retail and commercial customers.

Deferred inflows of resources decreased by \$2,790 due to a decrease of \$4,118 in relation to pensions offset by an increase of \$1,328 in OPEB based on actuarial reports.

Net Position, Fiscal Year 2022

Hetch Hetchy

Hetch Hetchy's net position of \$827,681 increased by \$43,483 or 5.5% from prior year resulting from a net increase of \$145,347 in total assets and deferred outflows of resources, offset by an increase of \$101,864 in total liabilities and deferred inflows of resources (see Table 1A). Current and other assets were \$500,800, a \$31,293 or 6.7% increase from prior year, mainly due to restricted net pension assets recognized in current year based on actuarial reports. Hetch Hetchy adopted GASB Statement No. 87, Leases and Statement No. 96, SBITAs. Right-to-use assets net of accumulated amortization was \$364 and \$369 in lease liabilities. Subscription assets net of accumulated amortization was \$641 and \$632 in subscription liabilities. See Notes 9 and 10 for additional information about the leases and SBITAs.

Capital assets, net of accumulated depreciation and amortization, increased by \$117,106 or 17.5% to \$786,643 primarily from construction and capital improvement activities for the Bay Corridor Project and the Mountain Tunnel Improvement Project. Deferred outflows of resources decreased by \$3,052 due to decreases of \$2,402 in pensions and \$650 in other post-employment benefits (OPEB) based on actuarial reports.

Total liabilities increased by \$21,999 or 5.9% to \$393,863. The increases included \$73,111 in outstanding debt mainly from Power 2021 Series AB revenue bonds and commercial paper issuances offset by a decrease of \$51,112 in other liabilities. Deferred inflows of resources increased by \$79,865 due to increases of \$78,741 in relation to pensions and \$1,124 in OPEB based on actuarial reports.

Hetchy Water

Hetchy Water's net position of \$249,182 increased by \$24,521 or 10.9% resulting from a net increase of \$33,811 in total assets and deferred outflows of resources, offset by a net increase of \$9,290 in total liabilities and deferred inflows of resources (see Table 1B). The increase of \$11,841 in current and other assets was attributed to increases of \$13,912 in restricted net pension assets based on actuarial report, \$314 in subscription assets net of accumulated amortization per implementation of GASB Statement No.

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96, *SBITAs*, \$33 in charges for services receivables due to higher consumption from Lawrence Livermore National Laboratory, \$19 in interest receivables due to higher interest accrual from City's Treasury, and \$8 in inventory due to more purchases than issuances during the fiscal year. The increases were offset by decreases of \$2,173 in cash and investment with City Treasury mainly from higher project spending, \$192 in prepaid charges, advances, and other receivables mainly due to prepayment to Turlock Irrigation District for relicensing studies, \$67 decrease in due from other governments related to State grant reimbursement received for Lower Cherry Aqueduct project, and \$13 decrease in lease right-to-use assets net of accumulated amortization per implementation of GASB Statement No. 87, *Leases*.

Capital assets, net of accumulated depreciation and amortization, increased by \$23,526 or 13.3% to \$201,007 primarily from construction and capital improvement activities for the Mountain Tunnel Improvement Project and San Joaquin Pipeline Valve and Safe Entry Improvement Project. Deferred outflows of resources decreased by \$1,556 due to decreases of \$1,103 in pensions and \$453 in other post-employment benefits (OPEB) based on actuarial reports.

Hetchy Water's total liabilities decreased by \$24,848 or 41.8% to \$34,648, as explained by decreases of \$26,645 in net pension liability based on actuarial estimates, \$2,733 in restricted payables to vendors and contractors mainly due to lower year-end expense accruals for capital projects, \$204 in OPEB obligations based on actuarial assumptions, \$16 in lease liability per implementation of GASB Statement No. 87, *Leases*, and \$6 in grant advance due to recognition of prior year State grant for the Rim Fire project. These decreases were offset by increases of \$4,192 in unrestricted payables mainly for license and permit fees to National Park Service, \$309 in subscription liability per implementation of GASB Statement No. 96, *SBITAs*, \$148 in employee related benefits mainly due to increase in workers' compensation, \$102 in general liability based on actuarial estimates, \$3 in interest payable related to *SBITs*, and \$2 increase in rental deposits and prepaid rent.

Deferred inflows of resources increased by \$34,138 due to increases of \$33,489 in relation to pensions and \$649 in OPEB based on actuarial reports.

Hetchy Power

Hetchy Power's net position of \$494,179 increased by \$21,719 or 4.6% resulting from a net increase of \$103,130 in total assets and deferred outflows of resources, offset by an increase of \$81,411 in total liabilities and deferred inflows of resources (see Table 1C). Increase of \$11,451 in current and other assets was attributed to increases of \$17,004 in restricted net pension assets based on actuarial report, \$7,882 in prepaid charges, advances, and other receivables mainly due to collateral paid to satisfy the CAISO's financial security requirements, \$3,295 in cash and investments mainly due to higher collections from billings, \$256 in subscription assets net of accumulated amortization per implementation of GASB Statement No. 96, *SBITAs*, \$76 in interest receivables due to higher interest accrual from City's Treasury, and \$31 increase in Federal grants receivable mainly from the Rim Fire Project.

These increases were offset by decreases of \$8,835 in charges for services receivables due to completion of billing system implementation in prior year resulting in more timely billings in current year, \$7,497 in restricted interest and other receivables mainly due to decrease in vendor prepayment to PG&E for the Bay Corridor Project, \$602 in due from other City departments mainly from repayment for Sustainable Energy Account, \$142 in inventory due to more issuances than purchases during the fiscal year, and \$17 decrease in lease right-to-use assets net of accumulated amortization per implementation of GASB Statement No. 87, *Leases*.

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Capital assets, net of accumulated depreciation and amortization, increased by \$93,580 or 19.0% to \$585,636 primarily from construction and capital improvement activities for the Bay Corridor Project and Mountain Tunnel Improvement Project. Deferred outflows of resources decreased by \$1,901 due to decreases of \$1,348 in pensions and \$553 in OPEB based on actuarial reports.

Hetchy Power's total liabilities of \$318,975 increased by \$39,686 or 14.2%. As of June 30, 2022, outstanding debt increased by \$73,111 due to \$124,000 from 2021 Series AB revenue bond issuances, \$63,058 from commercial paper issuance for Hetchy Power facilities, and \$27,022 in bond premium from 2021 Series AB revenue bonds, offset by \$140,043 in commercial paper, bonds, and certificates of participation principal repayments, and \$926 in amortization of premium and discount. Other liabilities of \$71,450, such as payables to vendors, employees, contractors, and other government agencies for goods and services under contractual agreements, decreased by \$33,425 or 31.9%, mainly due to decreases of \$32,566 in net pension liability based on actuarial estimates, \$6,241 in unrestricted payables mainly from prior year wheeling charges to APX, Inc., \$248 in OPEB obligations based on actuarial assumptions, \$85 in general liability based on actuarial estimates, and \$19 decrease in lease liability per implementation of GASB Statement No. 87, *Leases*. These decreases were offset by increases of \$3,666 in restricted payables to vendors and contractors due to higher year-end expense accruals for capital projects, \$870 increase in interest payable mainly related to 2021 Series AB revenue bond issuances, \$734 in unearned revenues, refunds, and other, \$253 in subscription liability per implementation of GASB Statement No. 96, *SBITAs*, \$200 in employee related benefits mainly due to increase in workers' compensation, and \$11 in due to Department of Public Works for painting of light poles. Increase of \$734 in unearned revenues, refunds, and other was mainly due to increases of \$458 in deposits from custom work projects, \$267 in prepayments from Distributed Antenna System (DAS) program, and \$60 in overpayments received from customers, offset by decreases of \$48 in grant advance due to recognition of Rim Fire State grant revenue and \$3 in deposits received from retail customers.

Deferred inflows of resources increased by \$41,725 due to increases of \$40,931 in relation to pensions and \$794 in OPEB based on actuarial reports.

CleanPowerSF

CleanPowerSF's net position of \$84,320 decreased by \$2,757 or 3.2%, resulting from an increase of \$11,163 in total liabilities and deferred inflows of resources, offset by an increase of \$8,406 in total assets and deferred outflows of resources (see Table 1D). Increase in total assets of \$8,001 was due to increases of \$20,602 in prepaid expenses included \$12,236 in collateral paid to satisfy the CAISO's financial security requirements, \$5,914 from power purchase credits, and \$2,452 in prepayments to PG&E for electricity purchases. Other increases included \$20,438 in charges for services receivables due to pre-approved rate increases, \$1,833 in restricted net pension assets based on actuarial report, \$71 in subscription assets net of accumulated amortization per implementation of GASB Statement No. 96, *SBITAs*, and \$6 in interest receivable due to higher interest accrual from City's Treasury. These increases were offset by decreases of \$34,604 in cash and investments with City Treasury mainly attributed to volatile and increased pricing in power market and \$345 decrease in lease right-to-use assets net of accumulated amortization per implementation of GASB Statement No. 87, *Leases*.

Deferred outflows of resources increased by \$405 due to increases of \$356 in OPEB and \$49 in pensions based on actuarial reports.

Total liabilities increased by \$7,161 or 21.6% to \$40,240, mainly explained by \$7,667 increase in payables to suppliers for power purchases, \$3,168 increase in unearned revenues, refunds, and other due to \$2,676 grants received in advance from California Public Utilities Commission (CPUC) for the new Disadvantaged

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Communities Programs (DAC) and the Community Food Service Energy Efficiency program, \$503 from net energy metering credits to retail and commercial customers, offset by a decrease of \$11 from customer prepayments. Other increases included \$228 for employee related benefits including vacation sick leave and accrued payroll mainly due to an extra day in current year-end payroll accrual when compared to prior year, \$70 in subscription liability per implementation of GASB Statement No. 96, *SBITAs*, \$26 in general liability based on actuarial estimates, and \$1 in interest payable related to *SBITs*. The increases were offset by decreases of \$3,008 in net pension liability based on actuarial estimates, \$645 in OPEB obligations based on actuarial assumptions, and \$346 decrease in lease liability and interest payable per implementation of GASB Statement No. 87, *Leases*.

Deferred inflows of resources increased by \$4,002 due to an increase of \$4,321 in relation to pensions, offset by a decrease of \$319 in OPEB based on actuarial reports.

Results of Operations

The following tables summarize Hetch Hetchy's revenues, expenses, and changes in net position:

**Table 2A - Consolidated Hetch Hetchy
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023, 2022, and 2021**

	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Revenues:					
Charges for services	\$ 583,194	480,198	390,924	102,996	89,274
Rents and concessions	283	249	247	34	2
Interest and investment income (loss)	4,603	(8,219)	(157)	12,822	(8,062)
Other non-operating revenues	16,964	19,001	21,552	(2,037)	(2,551)
Total revenues	<u>605,044</u>	<u>491,229</u>	<u>412,566</u>	<u>113,815</u>	<u>78,663</u>
Expenses:					
Operating expenses	536,343	470,759	408,870	65,584	61,889
Interest expenses	9,491	5,636	2,000	3,855	3,636
Amortization of premium, discount, and issuance costs	(1,584)	192	(219)	(1,776)	411
Non-operating expenses	499	628	965	(129)	(337)
Total expenses	<u>544,749</u>	<u>477,215</u>	<u>411,616</u>	<u>67,534</u>	<u>65,599</u>
Change in net position before transfers and contributions	<u>60,295</u>	<u>14,014</u>	<u>950</u>	<u>46,281</u>	<u>13,064</u>
Capital contributions	2,535	-	-	2,535	-
Transfers from the City and County of San Francisco	20,000	30,001	16,000	(10,001)	14,001
Transfers to the City and County of San Francisco	(32)	(532)	(532)	500	-
Capital contributions and net transfers	<u>22,503</u>	<u>29,469</u>	<u>15,468</u>	<u>(6,966)</u>	<u>14,001</u>
Change in net position	<u>82,798</u>	<u>43,483</u>	<u>16,418</u>	<u>39,315</u>	<u>27,065</u>
Net position at beginning of year	<u>827,681</u>	<u>784,198</u>	<u>767,780</u>	<u>43,483</u>	<u>16,418</u>
Net position at end of year	<u>\$ 910,479</u>	<u>827,681</u>	<u>784,198</u>	<u>82,798</u>	<u>43,483</u>

*Restated per GASB Statement No. 96, *SBITAs*.

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Table 2B - Hetchy Water
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023, 2022, and 2021

	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Revenues:					
Charges for services	\$ 52,570	49,200	46,979	3,370	2,221
Rents and concessions	127	112	111	15	1
Interest and investment income (loss)	457	(2,932)	(232)	3,389	(2,700)
Other non-operating revenues	1,861	479	1,352	1,382	(873)
Total revenues	<u>55,015</u>	<u>46,859</u>	<u>48,210</u>	<u>8,156</u>	<u>(1,351)</u>
Expenses:					
Operating expenses	50,011	52,299	50,519	(2,288)	1,780
Interest expenses	4	3	2	1	1
Non-operating expenses	54	37	63	17	(26)
Total expenses	<u>50,069</u>	<u>52,339</u>	<u>50,584</u>	<u>(2,270)</u>	<u>1,755</u>
Change in net position before transfers	4,946	(5,480)	(2,374)	10,426	(3,106)
Transfers from the City and County of San Francisco	20,000	30,001	16,000	(10,001)	14,001
Change in net position	<u>24,946</u>	<u>24,521</u>	<u>13,626</u>	<u>425</u>	<u>10,895</u>
Net position at beginning of year	249,182	224,661	211,035	24,521	13,626
Net position at end of year	<u>\$ 274,128</u>	<u>249,182</u>	<u>224,661</u>	<u>24,946</u>	<u>24,521</u>

*Restated per GASB Statement No. 96, SBITAs.

Table 2C - Hetchy Power
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023, 2022, and 2021

	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Revenues:					
Charges for services	\$ 203,847	173,105	136,247	30,742	36,858
Rents and concessions	156	137	136	19	1
Interest and investment income (loss)	3,741	(4,001)	24	7,742	(4,025)
Other non-operating revenues	13,605	15,763	19,273	(2,158)	(3,510)
Total revenues	<u>221,349</u>	<u>185,004</u>	<u>155,680</u>	<u>36,345</u>	<u>29,324</u>
Expenses:					
Operating expenses	191,552	156,343	145,640	35,209	10,703
Interest expenses	9,486	5,627	1,972	3,859	3,655
Amortization of premium, discount, and issuance costs	(1,584)	192	(219)	(1,776)	411
Non-operating expenses	227	591	902	(364)	(311)
Total expenses	<u>199,681</u>	<u>162,753</u>	<u>148,295</u>	<u>36,928</u>	<u>14,458</u>
Change in net position before transfers and contributions	21,668	22,251	7,385	(583)	14,866
Capital contributions	2,535	-	-	2,535	-
Transfers to the City and County of San Francisco	(32)	(532)	(532)	500	-
Capital contributions and net transfers	<u>2,503</u>	<u>(532)</u>	<u>(532)</u>	<u>3,035</u>	<u>-</u>
Change in net position	<u>24,171</u>	<u>21,719</u>	<u>6,853</u>	<u>2,452</u>	<u>14,866</u>
Net position at beginning of year	494,179	472,460	465,607	21,719	6,853
Net position at end of year	<u>\$ 518,350</u>	<u>494,179</u>	<u>472,460</u>	<u>24,171</u>	<u>21,719</u>

*Restated per GASB Statement No. 96, SBITAs.

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Table 2D - CleanPowerSF
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023, 2022, and 2021

	2023	Restated 2022*	2021	2023-2022 Change	2022-2021 Change
Revenues:					
Charges for services	\$ 326,777	257,893	207,698	68,884	50,195
Interest and investment income (loss)	405	(1,286)	51	1,691	(1,337)
Other non-operating revenues	1,498	2,759	927	(1,261)	1,832
Total revenues	<u>328,680</u>	<u>259,366</u>	<u>208,676</u>	<u>69,314</u>	<u>50,690</u>
Expenses:					
Operating expenses	294,780	262,117	212,711	32,663	49,406
Interest expenses	1	6	26	(5)	(20)
Non-operating expenses	218	—	—	218	—
Total expenses	<u>294,999</u>	<u>262,123</u>	<u>212,737</u>	<u>32,876</u>	<u>49,386</u>
Change in net position	<u>33,681</u>	<u>(2,757)</u>	<u>(4,061)</u>	<u>36,438</u>	<u>1,304</u>
Net position at beginning of year	<u>84,320</u>	<u>87,077</u>	<u>91,138</u>	<u>(2,757)</u>	<u>(4,061)</u>
Net position at end of year	<u>\$ 118,001</u>	<u>84,320</u>	<u>87,077</u>	<u>33,681</u>	<u>(2,757)</u>

*Restated per GASB Statement No. 96, SBITAs.

Result of Operations, Fiscal Year 2023

Hetch Hetchy

Hetch Hetchy's total revenues were \$605,044, an increase of \$113,815 or 23.2% over prior year (see Table 2A). Charges for services increased by \$102,996 or 21.4% from prior year's revenues mainly due to higher billings from CleanPowerSF and Hetchy Power. Total expenses increased by \$67,534 or 14.2% primarily from higher energy purchases due to volatile and increased pricing in power market. (See Table 2A).

Hetchy Water

Hetchy Water's total revenues were \$55,015, an increase of \$8,156 or 17.4% from prior year's revenues (see Table 2B). Increases included \$3,370 in charges for services, \$3,389 in interest and investment income, \$1,382 in other non-operating revenues, and \$15 in rents and concessions.

Charges for services were \$52,570, an increase of \$3,370 or 6.8% mainly due to increased water assessment fees from the Water Enterprise to fund upcountry water-related costs. Interest and investment income was \$457, an increase of \$3,389 mainly due to decrease in unrealized loss in City Treasury pooled investments attributed to improved market value of investments and higher interest rates. Other non-operating revenues were \$1,861, an increase of \$1,382 mainly due to increase of \$1,177 in State grants revenue for the 2018 Moccasin Storm Project related to emergency repairs, \$200 revenue related to labor settlements, and \$9 in overhead charges, offset by decreases of \$3 in net gain from sale of fixed assets and \$1 in miscellaneous revenue. Rents were \$127, an increase of \$15 mainly due to higher collections from recreational rentals.

Total operating expenses, excluding interest expenses and other non-operating expenses, were \$50,011, a decrease of \$2,288 or 4.4%. Other operating expenses decreased by \$7,358 mainly due to lower capital spending on the Mountain Tunnel Improvement Project, offset by increases of \$2,788 in personnel services due to higher personnel and fringe benefit costs and 5.25% increase in COLA, \$1,451 in general and

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administrative expenses due to higher fees, licenses, and permit expenses, \$281 in contractual services from increased management consulting services, \$263 in services provided by other departments mainly due to higher bureau allocations related to accounting services support from the Controller's Office, \$243 in material and supplies from fuel and minor data processing equipment, and \$44 in depreciation and amortization mainly related to additional facilities and improvements placed in service.

Other non-operating expenses were \$54, an increase of \$17 due to higher payments to community-based organization programs. Interest expenses were \$4, an increase of \$1 mainly due to implementation of GASB Statement No. 96, *SBITAs*. A transfer in of \$20,000 was received from the Water Enterprise to fund various Mountain Tunnel projects.

As a result of the above activities, net position for the year ended June 30, 2023 increased by \$24,946 or 10.0% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were \$221,349, an increase of \$36,345 or 19.6% from prior year's revenues (see Table 2C). Increases included \$30,742 from charges for services, \$7,742 from interest and investment income, and \$19 from rents and concessions, offset by a decrease of \$2,158 from other non-operating revenues.

Charges for services were \$203,847, an increase of \$30,742 or 17.8%, mainly due to increases of \$19,450 in wholesale revenue from Congestion Revenue Right (CRR) credits from California Independent System Operator (CAISO) and \$12,159 in billings from non-work order City departments as a result of increased operation due to easing of COVID-19 restrictions, offset by a decrease of \$867 in resale of capacity to CleanPowerSF. Interest and investment income was \$3,741, an increase of \$7,742 mainly due to decrease in unrealized loss in City Treasury pooled investments attributed to improved market value of investments and higher interest rates. Rents increased by \$19 or 13.9% to \$156 mainly due to higher collections from recreational rentals.

Other non-operating revenues were \$13,605, a decrease of \$2,158 or 13.7%, mainly due to decreases of \$3,987 in State and Federal grants revenue from the Rim Fire Project and California Arrearages Payment Program (CAPP) to provide relief for customer unpaid bills, \$590 in Low Carbon Fuel Standard credits, \$306 Cap and Trade revenue due to decrease of 10,606 allowances sold, \$22 in bond interest subsidies from IRS mainly due to lower subsidy for 2015 NCREBs, and \$6 in net gain from sale of fixed assets, offset by increases of \$2,084 from the Power System Mitigation Project, \$244 in settlement revenue, \$220 in Distributed Antenna System and miscellaneous revenue, and \$205 in overhead charges.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$35,209 or 22.5% to \$191,552. Increases included \$20,406 in purchased electricity and transmission, distribution, and other power costs attributed to volatile and higher pricing in power market, \$10,988 in general and administrative expenses due to higher judgements and claims expenses, \$4,654 in personnel services due to higher personnel and fringe benefit costs and 5.25% increase in COLA, \$2,421 in services provided by other departments mainly due to higher legal service charges from City Attorney's Office, \$1,360 in contractual services for construction contracts, \$342 in materials and supplies for electrical supplies and fuel, and \$108 in depreciation and amortization mainly related to additional facilities and improvements placed in service. These increases were offset by a decrease of \$5,070 in other operating expenses mainly due to lower capital spending for Bay Corridor Project.

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Interest expenses increased by \$3,859 or 68.6% due to higher outstanding bonds and commercial paper. Amortization of premium and discount decreased by \$1,776 due to higher costs of issuance for 2021 Series AB revenue bonds in prior year.

Other non-operating expenses were \$227, a decrease of \$364 or 61.6% mainly due to lower payments for GoSolarSF Incentive Program. Capital contributions of \$2,535 were from the Sunnydale and Potrero Hope Projects. Transfer out of \$32 to the Office of the City's Administrator was for the Surety Bond Program.

As a result of the above activities, net position for the year ended June 30, 2023 increased by \$24,171 or 4.9% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were \$328,680, a \$69,314 or 26.7% increase over prior year (see Table 2D). Charges for services increased by \$68,884 or 26.7% mainly due to \$70,629 in electricity sales to retail and commercial customers from increased consumption of 1.1% or 30,441 MWh, offset by \$997 in lower capacity sales to Hetchy Power and \$748 increase in allowance for uncollectible attributed to lower assistance received from CAPP for eligible customer account arrearages. Interest and investment income was \$405, an increase of \$1,691 mainly due to decrease in unrealized loss in City Treasury pooled investments attributed to improved market value of investments and higher interest rates. Other non-operating revenue decreased by \$1,261 mainly due to \$1,251 decrease in Federal grants received from CAPP and \$330 in liquidated damage compensation received from supplier for delay of the Renewable Energy Project in prior year, offset by an increase of \$320 in revenue mainly from Disadvantaged Communities (DAC) Programs.

Total operating expenses, excluding interest expenses were \$294,780, an increase of \$32,663 or 12.5% from prior year. Purchased electricity and transmission, distribution, and other power costs increased by \$25,640 due to volatile and increased pricing in power market, and higher resource adequacy capacity purchases related to compliance requirements from the CPUC. Other increases include \$6,568 in personnel services due to higher personnel and fringe benefit costs and 5.25% increase in COLA, \$681 in services provided by other departments mainly due to higher bureau allocations related to accounting services support from the Controller's Office, \$112 in other operating expenses mainly due to higher bureau allocations, and \$24 in material and supplies mainly for minor data processing equipment. These increases were offset by decreases of \$221 in professional and contractual services mainly from lower management consulting and financial services, \$115 in depreciation and amortization due to lease termination for 544 Golden Gate, and \$26 in general and administrative due to lower bank fees. Other non-operating expenses increased by \$218 in solar rebates for the Inverter Replacement Program. Interest expenses were \$1, a decrease of \$5 related to lease termination.

As a result of the above activities, net position for the year ended June 30, 2023 increased by \$33,681 or 39.9% compared to prior year.

Result of Operations, Fiscal Year 2022

Hetch Hetchy

Hetch Hetchy's total revenues were \$491,229, an increase of \$78,663 or 19.1% over prior year (see Table 2A). Charges for services increased by \$89,274 or 22.8% from prior year's revenues mainly due to higher billings from CleanPowerSF and Hetchy Power. Total expenses increased by \$65,599 or 15.9% primarily from higher energy purchases due to volatile and increased pricing in power market. (See Table 2A).

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Hetchy Water

Hetchy Water's total revenues were \$46,859, a decrease of \$1,351 or 2.8% from prior year's revenues (see Table 2B). Decrease was due to \$2,700 in investment loss and a decrease of \$873 from other non-operating revenues, offset by increases of \$2,221 from charges for services and \$1 from rents and concessions.

Charges for services were \$49,200, an increase of \$2,221 or 4.7% mainly due to increased water assessment fees from the Water Enterprise to fund upcountry water-related costs and higher consumption from Lawrence Livermore National Laboratory. Rents were \$112, an increase of \$1 or 0.9% mainly due to consumer price index adjustment. Interest and investment loss was \$2,932 mainly due to unrealized losses as a result of the decline in market value of investments related to rising interest rates. Other non-operating revenues were \$479, a decrease of \$873 or 64.6% mainly due to \$899 lower Federal and State grants revenue from the Rim Fire Projects, offset by increases of \$19 in overhead charges and \$7 in net gain from sale of fixed assets.

Total operating expenses, excluding interest expenses and other non-operating expenses, were \$52,299, an increase of \$1,780 or 3.5%. The increase was primarily due to increases of \$4,275 in other operating expenses mainly due to higher capital spending, \$612 in services provided by other departments mainly due to higher legal service charges from City Attorney's Office, \$452 in depreciation and amortization mainly related to additional building, structure and equipment placed in service, \$309 in general and administrative expenses mainly due to higher fees, licenses, and permit expenses, \$277 in contractual services mainly from increased engineering and management consulting services, and \$90 in material and supplies mainly from fuel and water treatment supplies. These increases were offset by a decrease of \$4,235 in personnel services due to lower pension obligations based on actuarial reports.

Other non-operating expenses were \$37, a decrease of \$26 due to lower payments to community-based organization programs. Interest expenses were \$3, an increase of \$1 mainly due to implementation of GASB Statements No. 87 and 96 for leases and SBITAs. A transfer in of \$30,001 was received from the Water Enterprise to fund various Mountain Tunnel projects.

As a result of the above activities, net position for the year ended June 30, 2022 increased by \$24,521 or 10.9% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were \$185,004, an increase of \$29,324 or 18.8% from prior year's revenues (see Table 2C). Increases included \$36,858 from charges for services and \$1 from rents and concessions, offset by decreases of \$4,025 from interest and investment income and \$3,510 from other non-operating revenues.

Charges for services were \$173,105, an increase of \$36,858 or 27.1%, due to \$22,537 in billings from City departments such as San Francisco International Airport, Municipal Transportation Agency, and Port of San Francisco as a result of increased operation due to easing of COVID-19 restrictions and \$14,980 in CRR credits from California Independent System Operator (CAISO), offset by a decrease of \$659 in resale of capacity to CleanPowerSF. Rents increased slightly by \$1 or 0.7% to \$137 mainly due to consumer price index adjustment. Interest and investment loss was \$4,001, a decrease of \$4,025, mainly due to unrealized losses as a result of the decline in market value of investments related to rising interest rates.

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Other non-operating revenues were \$15,763, a decrease of \$3,510 or 18.2%, mainly due to lower collections of \$3,254 from the Power System Mitigation Project, \$1,371 in Cap and Trade revenue due to decrease of 97,000 allowances or 80% sold, \$1,194 in revenue from Alice Griffith Housing Project due to prior year recognition of commercial deposits, \$797 in settlement revenue from prior year litigation settlement, and \$335 in overhead charges, offset by an increase of \$3,441 in State and Federal grants revenue from Rim Fire Project and California Utility Arrearages Relief Payment Program for unpaid bills.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$10,703 or 7.3%, to \$156,343. The increase was primarily due to increases of \$15,559 in purchased electricity and transmission, distribution, and other power costs due to volatile and increased pricing in power market, \$2,119 in depreciation and amortization mainly for buildings, facilities, machinery, and equipment related to higher capitalization of assets, \$754 in contractual services mainly for management consulting and engineering services, \$280 in materials and supplies mainly for electrical supplies and tools, and \$116 in services provided by other departments mainly due to higher risk management costs. The increases were offset by decreases of \$6,110 in personnel services due to lower pension obligations based on actuarial reports, \$1,420 in general and administrative expenses mainly due to lower judgements and claims expenses, and \$595 decrease in other operating expenses mainly due to higher capitalized project expenses.

Interest expenses increased by \$3,655 or 185.3% mainly due to no bond interest capitalization recognized in current year resulting from the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Amortization of premium and discount increased by \$411 or 187.7% mainly due to costs of issuance for 2021 Series AB revenue bond.

Other non-operating expenses were \$591, a decrease of \$311 or 34.5% mainly due to lower payments for GoSolarSF Incentive Program. Transfer out of \$532 includes \$500 to General Fund for repayment of Educational Revenue Augmentation Funds and \$32 to the Office of the City's Administrator for the Surety Bond Program.

As a result of the above activities, net position for the year ended June 30, 2022 increased by \$21,719 or 4.6% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were \$259,366, a \$50,690 or 24.3% increase over prior year (see Table 2D). Charges for services increased by \$50,195 or 24.2% mainly due to increases of \$44,215 in electricity sales to retail and commercial customers resulting from a 16% average rate increase, \$2,831 reduction in allowance for doubtful accounts attributed to assistance received from California Utility Arrearages Relief Payment Program (CAPP) for eligible customer account arrearages, \$2,817 in one-time customer assistance bill credit related to COVID-19 in prior year, and \$332 from higher capacity sales to Hetchy Power. Other non-operating revenue increased by \$1,832 mainly due to \$2,424 Federal grants received from CAPP, offset by a decrease of \$592 liquidated damage compensation received from supplier for delay of the Renewable Energy Project in prior year. Interest and investment loss was \$1,286 as a result of the decline in market value of investments related to rising interest rates.

Total operating expenses, excluding interest expenses were \$262,117, an increase of \$49,406 or 23.2% from prior year. The increase was due to \$48,749 in purchased electricity and transmission, distribution, and other power costs due to volatile and increased pricing in power market, and higher resource adequacy capacity purchases related to compliance requirements from the California Public Utilities Commission. Other operating expenses increased by \$2,895 due to \$2,424 grant expense recognized for CAPP when

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applied to customer account arrearages and \$471 in operating expenses mainly for the Neighborhood Steward Program and the new Local Renewable Energy. Other increases included \$1,394 in general and administrative expenses mainly due to higher judgements and claims expenses, \$102 in professional and contractual services mainly from higher software licensing fee, \$40 in depreciation and amortization due to implementation of GASB Statement No. 96, SBITAs, and \$7 in material and supplies mainly for data processing equipment. These increases were offset by decreases of \$3,474 in personnel services due to lower pension obligations based on actuarial reports, \$307 in services provided by other departments mainly due to lower labor support from Hetchy Power. Interest expenses decreased by \$20 mainly due to repayment of working capital loan to Hetchy Power completed in prior year.

As a result of the above activities, net position for the year ended June 30, 2022 decreased by \$2,757 or 3.2% compared to prior year.

Capital Assets

The following tables summarize Hetch Hetchy's changes in capital assets.

Table 3A - Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2023, 2022, and 2021

	2023	2022	2021	2023-2022 Change	2022-2021 Change
Hetch Hetchy					
Facilities, improvements, machinery, and equipment	\$ 466,897	440,460	432,916	26,437	7,544
Intangible assets	24,152	24,472	24,932	(320)	(460)
Land and rights-of-way	5,181	5,181	5,181	-	-
Construction work in progress	370,470	316,530	206,508	53,940	110,022
Total	<u>866,700</u>	<u>786,643</u>	<u>669,537</u>	<u>80,057</u>	<u>117,106</u>
Hetchy Water					
Facilities, improvements, machinery, and equipment	133,905	133,263	128,335	642	4,928
Intangible assets	10,167	10,374	10,581	(207)	(207)
Land and rights-of-way	3,232	3,232	3,232	-	-
Construction work in progress	72,450	54,138	35,333	18,312	18,805
Total	<u>219,754</u>	<u>201,007</u>	<u>177,481</u>	<u>18,747</u>	<u>23,526</u>
Hetchy Power					
Facilities, improvements, machinery, and equipment	332,992	307,197	304,581	25,795	2,616
Intangible assets	13,985	14,098	14,351	(113)	(253)
Land and rights-of-way	1,949	1,949	1,949	-	-
Construction work in progress	298,020	262,392	171,175	35,628	91,217
Total	<u>\$ 646,946</u>	<u>585,636</u>	<u>492,056</u>	<u>61,310</u>	<u>93,580</u>

Capital Assets, Fiscal Year 2023

Hetch Hetchy

Hetch Hetchy has capital assets of \$866,700, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2023 (see Table 3A). This amount represents an increase of \$80,057 or 10.2%, resulting from increases of \$53,940 in construction work in progress and \$26,437 in facilities, improvements, machinery and equipment, offset by a decrease of \$320 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

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Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2023 include the following:

**Table 3B - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2023**

	Hetchy Water	Hetchy Power	2023 Total
Moccasin Powerhouse Rewind	\$ —	16,920	16,920
Mountain Tunnel Improvement Project	6,835	8,353	15,188
Bay Corridor Project	—	9,093	9,093
San Joaquin Pipeline Valve & Safe Entry Improvement	6,888	—	6,888
Transmission Line Clearance Mitigation Upgrade	—	6,061	6,061
Cluster 7 Mitigation	—	5,398	5,398
O'Shaughnessy Dam Outlet Works Phase 1	1,724	2,107	3,831
Treasure Island Capital Improvements	—	3,471	3,471
Moccasin Dam Long Term Improvement and Facilities Upgrade	1,518	1,856	3,374
Repair & Replacement Life Extension Program	3,149	—	3,149
Intervening Facilities	—	2,748	2,748
2023 March Winter Storm	874	1,068	1,942
Other project additions individually below \$1,500	4,044	18,273	22,317
Additions to Construction Work in Progress	<u>\$ 25,032</u>	<u>75,348</u>	<u>100,380</u>
Van Ness Bus Rapid Transit	\$ —	13,916	13,916
Flow Control Facility Bypass Tunnel	3,291	4,022	7,313
Power Intervening Facilities	—	4,953	4,953
Mission Rock Phase I	—	2,075	2,075
Treasure Island Distribution Backbone	—	1,792	1,792
Yerba Buena Island Underground Distribution System	—	1,677	1,677
Marina Middle School Photovoltaic System	—	1,587	1,587
Other project additions individually below \$1,500	3,471	13,370	16,841
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	<u>\$ 6,762</u>	<u>43,392</u>	<u>50,154</u>

Hetchy Water

Hetchy Water has capital assets of \$219,754, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2023 (see Table 3A). This amount represents an increase of \$18,747 or 9.3%, primarily due to increases of \$18,312 in construction work in progress and \$642 in facilities, improvements, machinery, and equipment, offset by a decrease of \$207 in amortization of intangible assets.

For the year ended June 30, 2023, Hetchy Water's major additions to construction work in progress totaled \$25,032. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$6,762 (see Table 3B).

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Hetchy Power

Hetchy Power has capital assets of \$646,946, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2023 (see Table 3A). This amount represents an increase of \$61,310 or 10.5%, primarily due to increases of \$35,628 in construction work in progress and \$25,795 in facilities, improvements, machinery, and equipment, offset by a decrease of \$113 in amortization of intangible assets. For the year ended June 30, 2023, Hetchy Power's major additions to construction work in progress totaled \$75,348. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$43,392 (see Table 3B).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2023 and 2022.

See Note 4 for additional information about capital assets.

Capital Assets, Fiscal Year 2022

Hetch Hetchy

Hetch Hetchy has capital assets of \$786,643, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2022 (see Table 3A). This amount represents an increase of \$117,106 or 17.5%, resulting from increases of \$110,022 in construction work in progress and \$7,544 in facilities, improvements, machinery and equipment, offset by a decrease of \$460 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

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Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2022 include the following:

**Table 3C - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2022**

	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>2022 Total</u>
Bay Corridor Project	\$ —	46,608	46,608
Mountain Tunnel Improvement Project	16,638	20,335	36,973
Moccasin Powerhouse Rewind	—	12,368	12,368
O'Shaughnessy Dam Access & Drainage Improvements and Outlet Works	1,733	2,118	3,851
San Joaquin Pipeline Valve & Safe Entry Improvement	2,952	—	2,952
Repair and Replacement Life Extension Program	2,776	—	2,776
Intervening Facilities	—	2,758	2,758
Pier 70	—	2,739	2,739
Van Ness Bus Rapid Transit	—	2,423	2,423
Transmission Line Clearance Mitigation	—	1,711	1,711
Other project additions individually below \$1,500	5,555	19,799	25,354
Additions to Construction Work in Progress	<u>\$ 29,654</u>	<u>110,859</u>	<u>140,513</u>
San Joaquin Pipeline Tesla Valves and Installation	\$ 4,410	—	4,410
O'Shaughnessy Dam Access & Drainage Improvements - Stairs and Fall Protection	1,931	2,360	4,291
Pier 70	—	1,720	1,720
Transmission Line Clearance Mitigation	—	1,508	1,508
Other project additions individually below \$1,500	4,672	14,386	19,058
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	<u>\$ 11,013</u>	<u>19,974</u>	<u>30,987</u>

Hetchy Water

Hetchy Water has capital assets of \$201,007, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2022 (see Table 3A). This amount represents an increase of \$23,526 or 13.3%, primarily due to increases of \$18,805 in construction work in progress and \$4,928 in facilities, improvements, machinery, and equipment, offset by a decrease of \$207 in amortization of intangible assets.

For the year ended June 30, 2022, Hetchy Water's major additions to construction work in progress totaled \$29,654. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$11,013 (see Table 3C).

Hetchy Power

Hetchy Power has capital assets of \$585,636, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2022 (see Table 3A). This amount represents an increase of \$93,580

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or 19.0%, primarily due to increases of \$91,217 in construction work in progress and \$2,616 in facilities, improvements, machinery, and equipment, offset by a decrease of \$253 in amortization of intangible assets.

For the year ended June 30, 2022, Hetchy Power's major additions to construction work in progress totaled \$110,859. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$19,974 (see Table 3C).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2022 and 2021.

See Note 4 for additional information about capital assets.

Debt Administration

Hetch Hetchy

As of June 30, 2023, Hetch Hetchy has outstanding Certificates of Participation, Clean Renewable Energy Bonds (CREBs), Qualified Energy Conservation Bonds (QECBs), New Clean Renewable Energy Bonds (NCREBs), 2015 Series AB revenue bonds, 2021 Series AB revenue bonds, and commercial paper. The aforementioned debts are obligations of the Power Enterprise. See Hetchy Power section below for more details.

Hetchy Water

Hetchy Water did not have debt outstanding as of June 30, 2023 and 2022. Debt, including bond issuances, associated with the funding of water-related, upcountry infrastructure capital improvements is issued through the Water Enterprise, and is reflected in the Water Enterprise's financial statements.

Hetchy Power

As of June 30, 2023 and 2022, Hetchy Power had outstanding debt of \$319,877 and \$247,525, respectively, as shown in Table 4. More detailed information about the Hetchy Power's debt activity is presented in Notes 6, 7 and 8 to the financial statements.

CleanPowerSF

CleanPowerSF did not have any debt outstanding as of June 30, 2023 and 2022.

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Table 4 - Hetchy Power
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2023, 2022, and 2021

	2023	2022	2021	2023-2022 Change	2022-2021 Change
Clean Renewable Energy Bonds 2008	\$ —	415	823	(415)	(408)
Certificates of Participation 2009 Series C	—	427	838	(427)	(411)
Certificates of Participation 2009 Series D (BABs)	12,593	12,593	12,593	—	—
Qualified Energy Conservation Bonds 2011	2,583	3,138	3,687	(555)	(549)
New Clean Renewable Energy Bonds 2015	1,491	1,637	1,779	(146)	(142)
2015 Series A Revenue Bonds	34,985	35,144	35,297	(159)	(153)
2015 Series B Revenue Bonds	2,948	3,849	4,726	(901)	(877)
2021 Series A Revenue Bonds	89,303	90,213	—	(910)	90,213
2021 Series B Revenue Bonds	59,622	60,090	—	(468)	60,090
Commercial Paper	116,352	40,019	114,671	76,333	(74,652)
Total	<u>\$ 319,877</u>	<u>247,525</u>	<u>174,414</u>	<u>72,352</u>	<u>73,111</u>

The increase of \$72,352 was mainly due to \$76,333 increase in commercial paper, offset by bonds and certificates of participation principal repayments of \$2,397 and \$1,584 in amortization of premium and discount.

Credit Ratings and Bond Insurance – The Power Enterprise's Power Revenue Bonds have been rated "AA-" by Fitch Inc and "AA" by Standard and Poor's (S&P) as of June 30, 2023 and 2022, respectively.

In December 2020, Moody's Investors Service, ("Moody's") assigned a first-time A2 Issuer Rating to CleanPowerSF, with a stable outlook. Hetch Hetchy Water and Power contains the Power Enterprise as a separate enterprise fund, with CleanPowerSF a component unit of the Power Enterprise. CleanPowerSF is tracked and audited as a standalone fund, with financial statements, including revenues and expenses, separate and discrete from the Power Enterprise. As such, CleanPowerSF is deemed to be a separate credit from the Power Enterprise, with its own credit rating.

Debt Service Coverage – Pursuant to the Indenture, the Power Enterprise is required to collect sufficient net revenues each fiscal year, together with any Available Funds (except Bond Reserve Funds) which include unappropriated fund balances and reserves, and cash and book value of investments held by the Treasurer for the Hetchy Power, that the SFPUC reasonably expects would be available, to pay principal and interest becoming due and payable on all outstanding bonds as provided in the Indenture, less any refundable credits, at least equal to 1.25 times annual debt service for said fiscal year. The Series 2015 AB power revenue bonds represent the first series of senior lien revenue bonds of Hetchy Power. Pursuant to Power's Master Trust Indenture, senior lien debt service coverage excludes debt service on subordinate obligations, such as Hetchy Power's existing CREBS, NCREBS, and QECBs. During fiscal year 2023, the Power Enterprise's net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Power Enterprise's Indenture (see Note 8).

Debt Authorization – Pursuant to Charter Section 9.107(6), the Power Enterprise can incur indebtedness upon three-fourths vote of the Board of Supervisors, for the purpose of the reconstruction or replacement of existing water facilities and electric power facilities, or combinations thereof, under the jurisdiction of the Public Utilities Commission. Pursuant to Charter Section 9.107(8), the Power Enterprise can issue revenue bonds, without voter approval, upon an affirmative vote of the Board of Supervisors, for the purpose of the acquisition, construction, installation, equipping, improvement, or rehabilitation of equipment or facilities for renewable energy and energy conservation. Pursuant to Proposition A, approved by the San Francisco voters on June 5, 2018, City Charter Section 8B.124 is amended to authorize the Power Enterprise to enter into

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indebtedness, including revenue bonds, notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors to reconstruct, replace, expand, repair, improve or construct new power facilities under the jurisdiction of SFPUC or for any other purpose of the Power Enterprise, and in compliance with City Charter Section 8B.124. Proposition A expressly prohibits the SFPUC from issuing bonds to finance the construction of power plants that generate electricity using fossil fuels or nuclear energy. As of June 30, 2023 and 2022, \$163,555 of Hetchy Power revenue bonds were issued against existing authorization of \$695,933 and \$555,043, respectively.

Cost of Debt Capital – The Power Enterprise's outstanding long-term senior lien debt consists of the 2015 Series AB and 2021 Series AB Power Revenue Bonds issued in May 2015 and December 2021, respectively, which are issued under the Master Indenture and are senior in lien to all the other Enterprise's outstanding debt obligations. Coupon interest rates range from 3.0% to 5.0%. The Power Enterprise has previously issued and incurred debt service on Tax Credit Bonds and certificates of participation, which constitute subordinate obligations. Interest rates on the Tax Credit Bonds, which include QECBs and NCREBs, ranging from 1.2% to 1.5% (net of the federal tax subsidy). Certificates of participation carried interest rates ranging from 2.0% to 6.5%. The Power Enterprise's short-term debt issued under its commercial paper program has interest rates ranging from 1.1% to 3.2% and 0.1% to 1.1% during fiscal years 2023 and 2022, respectively.

Rates and Charges

Hetchy Water

Hetchy Water charges for services relates to the storage and delivery of water. The water-related portion of upcountry expenditures not covered by the small quantity of water sales to upcountry customers or other miscellaneous revenues are paid by an assessment to the Water Enterprise. Assessment fees were \$49,636 and \$45,815 for the years ended June 30, 2023 and 2022, respectively. In fiscal year 2024, the assessment fees will be \$46,266, a decrease of \$3,370 or 6.8% as reflected in the fiscal year 2024 adopted budget. The decrease is primarily due to higher projected water sales which offset a larger portion of the water-related expenditures.

Hetchy Power

Hetchy Power charges for services relate to power generation and electricity delivery to contractual, municipal, and retail customers.

All current SFPUC Rates Schedules and Fees are available at <https://sfpuc.org/accounts-services/water-power-and-sewer-rates>.

Municipal Rates

Departments of the City & County of San Francisco, as well as certain other non-City government agencies, are eligible for municipal power rates. Historically, municipal customers paid either the General Use rate, which was a subsidized rate below the cost of service, or an Enterprise rate, which was set to exactly follow the equivalent PG&E rate.

Based on the results of the 2022 Power Cost of Service Study, beginning in fiscal year 2023, all municipal customers are being transitioned to standardized tariff schedules set to their cost of service. For General Use customers, this means that a) instead of a single flat rate per kWh, customers are assigned to a rate schedule based on their customer class (small commercial, industrial, etc.), and b) the subsidy is being

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

gradually eliminated until the General Use rate reaches the equivalent retail rate, which is projected to take 3 to 8 years, depending on the customer class. For Enterprise customers, their rates will no longer follow PG&E. Instead, they are set to a rate for their standardized customer class, and will be phased to cost of service over two years. Beginning in fiscal year 2024, all Enterprise customers will be on the same rate schedules as retail non-municipal customers.

Retail Rates

Based on the results of the 2022 Power Cost of Service Study, the Commission approved a two-year schedule of retail electric rates for residential, commercial, and industrial customers where Hetch Hetchy has been designated as the power provider to be applied to meter readings on or after July 1, 2022. These rates apply to all existing retail customers, and are the default rates for any new Hetchy Power customers.

CleanPowerSF

CleanPowerSF began offering services in May 2016, giving residential and commercial electricity consumers in San Francisco a choice of having their electricity supplied from clean renewable sources, such as solar geothermal, hydroelectric and wind, at competitive rates. CleanPowerSF offers two products: a "Green" product comprised of at least 50% RPS-eligible renewable energy and a "SuperGreen" product comprised of 100% renewable energy. Most customers take service under the "Green" product rates and remaining customers have opted to upgrade to "SuperGreen" product rates.

Previously, rates were set formulaically, at a percentage above or below the equivalent PG&E generation rate. In addition, the formula required rates to be set high enough to recover its costs. Whenever PG&E rates changed, rates would automatically adjust following the set formula.

Based on the results of the 2022 Power Cost of Service Study, CleanPowerSF customers have now transitioned to fixed rate schedules for the entire fiscal year. The rates for each customer class are set based on their unique cost of service, which means that the percentage difference from the equivalent PG&E rates may vary based on the rate schedule and throughout the year as PG&E's rate change more frequently.

CleanPowerSF Rates Schedules are available at <http://cleanpowersf.org/residential> for residential customers and <http://cleanpowersf.org/commercial> for commercial customers.

Request for Information

This report is designed to provide our citizens, customers, investors, and creditors with an overview of Hetch Hetchy's finances and to demonstrate Hetch Hetchy's respective accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional information should be addressed to San Francisco Public Utilities Commission, Chief Financial Officer, 525 Golden Gate Avenue, 13th Floor, San Francisco, CA 94102.

This report is available at <https://sfpuc.org/about-us/reports/audited-financial-statements-reports>.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Statements of Net Position
June 30, 2023 and 2022
(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2022 Total*
Assets								
Current assets:								
Cash and investments with City Treasury	\$ 76,973	224,234	98,657	399,864	94,190	189,641	56,234	340,065
Cash and investments outside City Treasury	—	154	—	154	1	16	—	17
Receivables:								
Charges for services (net of allowance for doubtful accounts from Hetchy Power of \$3,923 and CleanPowerSF of \$7,923 as of June 30, 2023; and Hetchy Power of \$1,297 and CleanPowerSF of \$6,330 as of June 30, 2022)	405	12,277	41,625	54,307	475	10,189	48,703	59,367
Due from other City departments, current portion	—	1,134	—	1,134	—	867	—	867
Due from other governments	1,723	646	—	2,369	512	298	—	810
Interest	295	1,503	559	2,357	40	201	61	302
Restricted interest and other receivables	—	4,151	—	4,151	—	4,303	—	4,303
Total current receivables	2,423	19,711	42,184	64,318	1,027	15,858	48,764	65,649
Prepaid charges, advances, and other receivables, current portion	92	1,579	5,641	7,312	216	1,911	10,550	12,677
Inventory	221	1,619	—	1,840	199	1,678	—	1,877
Restricted cash and investments outside City Treasury, current portion	—	5,371	—	5,371	—	5,228	—	5,228
Total current assets	79,709	252,668	146,482	478,859	95,633	214,332	115,548	425,513
Non-current assets:								
Restricted net pension asset	—	—	—	—	13,912	17,004	1,833	32,749
Restricted cash and investments with City Treasury	10,980	17,606	—	28,586	—	—	—	—
Restricted cash and investments outside City Treasury, less current portion	—	3,840	—	3,840	—	8,824	—	8,824
Capital assets, not being depreciated and amortized	75,688	301,400	—	377,088	57,376	265,772	—	323,148
Capital assets, net of accumulated depreciation and amortization	144,066	345,546	—	489,612	143,631	319,864	—	463,495
Lease right-to-use assets, net of accumulated amortization	145	178	—	323	61	73	230	364
Subscription assets, net of accumulated amortization	137	114	30	281	314	256	71	641
Prepaid charges, advances, and other receivables, less current portion	141	9,540	11,424	21,105	146	9,390	12,236	21,772
Due from other City departments, less current portion	—	10,352	—	10,352	—	10,937	—	10,937
Total non-current assets	231,157	688,576	11,454	931,187	215,440	632,120	14,370	861,930
Total assets	310,866	941,244	157,936	1,410,046	311,073	846,452	129,918	1,287,443
Deferred outflows of resources:								
Pensions	8,858	10,826	1,292	20,976	6,696	8,183	852	15,731
Other post-employment benefits	3,248	3,969	1,009	8,226	3,272	3,999	798	8,069
Total deferred outflows of resources	12,106	14,795	2,301	29,202	9,968	12,182	1,650	23,800

(Continued)

*Restated per GASB Statement No. 96, SB/TAs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2023 and 2022

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2022 Total*
Liabilities								
Current liabilities:								
Accounts payable	\$ 1,033	24,970	24,344	50,347	8,454	16,668	23,526	48,648
Accrued payroll	1,252	3,041	543	4,836	1,098	2,684	373	4,155
Accrued vacation and sick leave, current portion	1,132	1,867	394	3,393	1,034	1,747	279	3,060
Accrued workers' compensation, current portion	216	401	—	617	215	400	—	615
Damage claims liability, current portion	300	450	16	766	228	358	15	601
Due to other City departments, current portion	—	1,946	—	1,946	—	380	—	380
Lease liability, current portion	16	19	—	35	3	3	232	238
Subscription liability, current portion	80	65	18	163	170	137	39	346
Unearned revenues, refunds, and other, current portion	110	5,880	6,146	12,136	24	5,923	4,196	10,143
Bond, loan, lease, and subscription interest payable	2	1,597	—	1,599	3	1,329	1	1,333
Bonds, current portion	—	1,590	—	1,590	—	1,966	—	1,966
Certificates of participation, current portion	—	445	—	445	—	427	—	427
Commercial paper, current portion	—	—	—	—	—	40,019	—	40,019
Current liabilities payable from restricted assets	5,747	23,119	—	28,866	6,324	19,059	—	25,383
Total current liabilities	9,888	65,390	31,461	106,739	17,553	91,100	28,661	137,314
Long-term liabilities:								
Other post-employment benefits obligations	14,907	18,220	4,053	37,180	14,240	17,405	2,264	33,909
Net pension liability	14,105	17,239	2,124	33,468	—	—	—	—
Accrued vacation and sick leave, less current portion	1,134	1,849	349	3,332	1,135	1,850	267	3,252
Accrued workers' compensation, less current portion	1,003	1,837	—	2,840	1,013	1,850	—	2,863
Damage claims liability, less current portion	400	5,700	18	6,118	399	665	17	1,081
Bonds, less current portion	—	189,342	—	189,342	—	192,520	—	192,520
Lease liability, less current portion	122	150	—	272	59	72	—	131
Subscription liability, less current portion	59	51	13	123	139	116	31	286
Unearned revenues, refunds, and other, less current portion	—	580	—	580	110	804	9,000	9,914
Commercial paper, less current portion	—	116,352	—	116,352	—	—	—	—
Certificates of participation, less current portion	—	12,148	—	12,148	—	12,593	—	12,593
Total long-term liabilities	31,730	363,468	6,557	401,755	17,095	227,875	11,579	256,549
Total liabilities	41,618	428,858	38,018	508,494	34,648	318,975	40,240	393,863
Deferred inflows of resources:								
Related to pensions	4,142	5,062	1,296	10,500	34,477	42,138	5,414	82,029
Other post-employment benefits	3,084	3,769	2,922	9,775	2,734	3,342	1,594	7,670
Total deferred inflows of resources	7,226	8,831	4,218	20,275	37,211	45,480	7,008	89,699
Net position:								
Net investment in capital assets	219,754	336,281	—	556,035	201,007	352,162	—	553,169
Restricted for debt service	—	56	—	56	—	140	—	140
Restricted for capital projects	5,233	—	—	5,233	—	—	—	—
Restricted for other purposes	—	—	—	—	13,912	17,004	1,833	32,749
Unrestricted	49,141	182,013	118,001	349,155	34,263	124,873	82,487	241,623
Total net position	\$ 274,128	518,350	118,001	910,479	249,182	494,179	84,320	827,681

*Restated per GASB Statement No. 96, SBITAs.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2022 Total*
Operating revenues:								
Charges for services	\$ 52,570	203,847	326,777	583,194	49,200	173,105	257,893	480,198
Rents and concessions	127	156	–	283	112	137	–	249
Total operating revenues	<u>52,697</u>	<u>204,003</u>	<u>326,777</u>	<u>583,477</u>	<u>49,312</u>	<u>173,242</u>	<u>257,893</u>	<u>480,447</u>
Operating expenses:								
Personnel services	18,424	39,300	10,735	68,459	15,636	34,646	4,167	54,449
Contractual services	2,956	10,819	6,559	20,334	2,675	9,459	6,780	18,914
Transmission/distribution and other power costs	–	70,580	226	70,806	–	51,521	192	51,713
Purchased electricity	–	8,078	265,152	273,230	–	6,731	239,546	246,277
Materials and supplies	1,605	2,612	57	4,274	1,362	2,270	33	3,665
Depreciation and amortization	6,524	17,877	270	24,671	6,480	17,769	385	24,634
Services provided by other departments	3,392	8,674	4,302	16,368	3,129	6,253	3,621	13,003
General and administrative and other	17,110	33,612	7,479	58,201	23,017	27,694	7,393	58,104
Total operating expenses	<u>50,011</u>	<u>191,552</u>	<u>294,780</u>	<u>536,343</u>	<u>52,299</u>	<u>156,343</u>	<u>262,117</u>	<u>470,759</u>
Operating income (loss)	<u>2,686</u>	<u>12,451</u>	<u>31,997</u>	<u>47,134</u>	<u>(2,987)</u>	<u>16,899</u>	<u>(4,224)</u>	<u>9,688</u>
Non-operating revenues (expenses):								
Federal and state grants	1,627	937	1,173	3,737	450	4,924	2,424	7,798
Interest and investment (loss) income	457	3,741	405	4,603	(2,932)	(4,001)	(1,286)	(8,219)
Interest expenses	(4)	(9,486)	(1)	(9,491)	(3)	(5,627)	(6)	(5,636)
Amortization of premium, discount, and issuance costs	–	1,584	–	1,584	–	(192)	–	(192)
Net gain from sale of assets	4	3	–	7	7	9	–	16
Other non-operating revenues	230	12,665	325	13,220	22	10,830	335	11,187
Other non-operating expenses	(54)	(227)	(218)	(499)	(37)	(591)	–	(628)
Net non-operating revenues (expenses)	<u>2,260</u>	<u>9,217</u>	<u>1,684</u>	<u>13,161</u>	<u>(2,493)</u>	<u>5,352</u>	<u>1,467</u>	<u>4,326</u>
Change in net position before transfers and contributions	4,946	21,668	33,681	60,295	(5,480)	22,251	(2,757)	14,014
Capital contributions	–	2,535	–	2,535	–	–	–	–
Transfers from the City and County of San Francisco	20,000	–	–	20,000	30,001	–	–	30,001
Transfers to the City and County of San Francisco	–	(32)	–	(32)	–	(532)	–	(532)
Capital contributions and net transfers	<u>20,000</u>	<u>2,503</u>	<u>–</u>	<u>22,503</u>	<u>30,001</u>	<u>(532)</u>	<u>–</u>	<u>29,469</u>
Change in net position	<u>24,946</u>	<u>24,171</u>	<u>33,681</u>	<u>82,798</u>	<u>24,521</u>	<u>21,719</u>	<u>(2,757)</u>	<u>43,483</u>
Net position at beginning of year	249,182	494,179	84,320	827,681	224,661	472,460	87,077	784,198
Net position at end of year	<u>\$ 274,128</u>	<u>518,350</u>	<u>118,001</u>	<u>910,479</u>	<u>249,182</u>	<u>494,179</u>	<u>84,320</u>	<u>827,681</u>

*Restated per GASB Statement No. 96, SBITAs.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2022 Total*
Cash flows from operating activities:								
Cash received from customers, including cash deposits	\$ 52,640	201,707	324,730	579,077	49,161	183,203	237,947	470,311
Cash received from tenants for rent	129	158	–	287	114	139	–	253
Cash received from miscellaneous revenues	30	8,689	6	8,725	22	7,237	335	7,594
Cash paid to employees for services	(21,537)	(42,804)	(8,063)	(72,404)	(20,430)	(40,448)	(5,828)	(66,706)
Cash paid to suppliers for goods and services	(31,864)	(113,682)	(275,322)	(420,868)	(25,547)	(107,824)	(268,917)	(402,288)
Cash paid for judgments and claims	(331)	(5,548)	(1,725)	(7,604)	(276)	(2,163)	(1,529)	(3,968)
Net cash provided by (used in) operating activities	(933)	48,520	39,626	87,213	3,044	40,144	(37,992)	5,196
Cash flows from non-capital and related financing activities:								
Cash received from grants	389	546	1,173	2,108	517	4,893	5,100	10,510
Cash received for license fees	–	3,713	–	3,713	–	3,333	–	3,333
Cash received from settlements	200	244	–	444	–	–	–	–
Cash received from Public Purpose Funds	–	–	2,394	2,394	–	–	–	–
Cash paid for rebates, program incentives, and other	(54)	(227)	(218)	(499)	(37)	(591)	–	(628)
Transfers from the City and County of San Francisco	20,000	–	–	20,000	30,001	–	–	30,001
Transfers to the City and County of San Francisco	–	(32)	–	(32)	–	(532)	–	(532)
Net cash provided by non-capital financing activities	20,535	4,244	3,349	28,128	30,481	7,103	5,100	42,684
Cash flows from capital and related financing activities:								
Acquisition and construction of capital assets	(25,856)	(72,541)	–	(98,397)	(32,558)	(108,062)	–	(140,620)
Proceeds from sale of capital assets	4	3	–	7	7	9	–	16
Lease payments	(18)	(22)	(233)	(273)	(17)	(22)	(351)	(390)
Subscription payments	(172)	(139)	(39)	(350)	(179)	(145)	(41)	(365)
Proceeds from bond issuance, net of premium, discount, refunding loss, and issuance costs	–	–	–	–	–	151,022	–	151,022
Principal paid on long-term debt	–	(2,397)	–	(2,397)	–	(2,333)	–	(2,333)
Proceeds from commercial paper borrowings	–	76,333	–	76,333	–	63,058	–	63,058
Principal paid on commercial paper	–	–	–	–	–	(137,710)	–	(137,710)
Interest paid on long-term debt	–	(7,886)	–	(7,886)	–	(4,695)	–	(4,695)
Interest paid on commercial paper borrowings	–	(1,327)	–	(1,327)	–	(59)	–	(59)
Issuance costs paid on long-term debt	–	–	–	–	–	(1,118)	–	(1,118)
Federal interest income subsidy	–	502	–	502	–	397	–	397
Net cash used in capital and related financing activities	(26,042)	(7,474)	(272)	(33,788)	(32,747)	(39,658)	(392)	(72,797)
Cash flows from investing activities:								
Interest Income	914	3,663	1,207	5,784	329	1,003	407	1,739
Proceeds from sale of investments outside City Treasury	–	10,224	–	10,224	–	7,118	–	7,118
Purchases of investments outside City Treasury	–	(10,224)	–	(10,224)	–	(7,118)	–	(7,118)
Net cash provided by investing activities	914	3,663	1,207	5,784	329	1,003	407	1,739
Increase (decrease) in cash and cash equivalents	(5,526)	48,953	43,910	87,337	1,107	8,592	(32,877)	(23,178)
Cash and cash equivalents:								
Beginning of year	97,383	208,857	57,887	364,127	96,276	200,265	90,764	387,305
End of period	\$ 91,857	257,810	101,797	451,464	97,383	208,857	57,887	364,127
Reconciliation of cash and cash equivalents to the statements of net position:								
Cash and investments with City Treasury:								
Unrestricted	\$ 76,973	224,234	98,657	399,864	94,190	189,641	56,234	340,065
Restricted	10,980	17,606	–	28,586	–	–	–	–
Add: Unrealized loss on investments with City Treasury	3,904	6,605	3,140	13,649	3,192	5,148	1,653	9,993
Cash and investments outside City Treasury:								
Unrestricted	–	154	–	154	1	16	–	17
Restricted	–	9,211	–	9,211	–	14,052	–	14,052
Cash and cash equivalents at end of year on statements of cash flows	\$ 91,857	257,810	101,797	451,464	97,383	208,857	57,887	364,127

*Restated per GASB Statement No. 96, SBITAs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2022 Total*
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	\$ 2,686	12,451	31,997	47,134	(2,987)	16,899	(4,224)	9,688
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	6,524	17,877	270	24,671	6,480	17,769	385	24,634
Miscellaneous revenues	30	8,689	6	8,725	22	7,237	335	7,594
Provision for uncollectible accounts	—	2,626	1,593	4,219	—	39	845	884
Write-off of capital assets	192	211	—	403	7	648	—	655
Changes in operating assets and liabilities:								
Receivables:								
Charges for services	70	(4,714)	5,485	841	(33)	8,796	(21,283)	(12,520)
Prepaid charges, advances, and other	129	115	5,908	6,152	192	(344)	(20,574)	(20,726)
Due from other City departments	—	345	—	345	—	531	—	531
Inventory	(22)	59	—	37	(8)	142	—	134
Accounts payable	(7,421)	8,302	818	1,699	4,192	(6,241)	7,667	5,618
Accrued payroll	154	357	170	681	56	88	82	226
Other post-employment benefits obligations	1,041	1,272	2,906	5,219	898	1,099	(1,320)	677
Pension obligations	(4,480)	(5,476)	(601)	(10,557)	(5,965)	(7,291)	(569)	(13,825)
Accrued vacation and sick leave	97	119	197	413	(16)	(20)	146	110
Accrued workers' compensation	(9)	(12)	—	(21)	108	132	—	240
Damage claims liability	73	5,127	2	5,202	102	(85)	26	43
Due to other City departments	—	1,566	—	1,566	—	11	—	11
Unearned revenues, refunds, and other liabilities	3	(394)	(9,125)	(9,516)	(4)	734	492	1,222
Total adjustments	(3,619)	36,069	7,629	40,079	6,031	23,245	(33,768)	(4,492)
Net cash provided by (used in) operating activities	\$ (933)	48,520	39,626	87,213	3,044	40,144	(37,992)	5,196
Noncash transactions:								
Accrued capital asset costs	\$ 5,747	23,119	—	28,866	6,324	19,059	—	25,383
Receivables from Wastewater	—	518	—	518	—	629	—	629
Payable to MTA	—	1,946	—	1,946	—	—	—	—
Unrealized loss on investments	3,904	6,605	3,140	13,649	3,192	5,148	1,653	9,993
Capital contributions	—	2,535	—	2,535	—	—	—	—

*Restated per GASB Statement No. 96, SBITAs.

See accompanying notes to financial statements.

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(1) Description of Reporting Entity

San Francisco Hetch Hetchy Water and Power (Hetch Hetchy or the Enterprise) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and was reported as part of Hetch Hetchy starting fiscal year 2016. Hetch Hetchy is a stand-alone enterprise comprised of three funds, Hetchy Power (the Power Enterprise), CleanPowerSF and Hetchy Water, the portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service. Hetch Hetchy accounts for the activities of Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity from that resource, as well as the City Power services including energy efficiency and renewable.

Approximately 61% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, Zuckerberg San Francisco General Hospital and Trauma Center, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 39% balance of electricity is sold to CleanPowerSF and the wholesale electric market. As a result of the 1913 Raker Act, energy produced above the City's municipal load is sold first to the Districts (Modesto Irrigation District and Turlock Irrigation District) to cover their agricultural pumping and municipal load needs and any remaining energy is either sold to other municipalities and/or government agencies (not for resale) or sold into the California Independent System Operator (CAISO). Hetch Hetchy operation is an integrated system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the CAISO, and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

Until August 1, 2008, the San Francisco Public Utilities Commission (SFPUC) consisted of five members, all appointed by the Mayor. Proposition E, a City and County of San Francisco Charter Section 4.112 amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the SFPUC, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the SFPUC, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for SFPUC members and requires them to meet the following qualifications:

- Seat 1 must have experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 must have experience in ratepayer or consumer advocacy.
- Seat 3 must have experience in project finance.
- Seat 4 must have expertise in water systems, power systems, or public utility management.
- Seat 5 is an at-large member.

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The SFPUC is a department of the City, and as such, the financial operations of Hetch Hetchy, Wastewater, and the Water Enterprise are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2023 and 2022, and the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) *Basis of Accounting and Measurement Focus*

The accounts of Hetch Hetchy are organized on the basis of proprietary fund types and are included as enterprise funds of the City. The activities of Hetch Hetchy and each fund are accounted for with a separate set of self-balancing accounts that comprise Hetch Hetchy's and each fund's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial activities of Hetch Hetchy are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. GAAP. Under this method, all assets and liabilities associated with operations are included on the Statements of Net Position, revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Operating revenues are defined as charges to customers and rental income.

Hetch Hetchy applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

(b) *Cash and Cash Equivalents*

Hetch Hetchy considers its pooled deposits and investments held with the City Treasury to be demand deposits and, therefore, cash and cash equivalents for financial reporting. The City Treasury also holds non-pooled cash and investments for the Enterprise. Non-pooled restricted deposits and restricted deposits and investments held outside the City Treasury with original maturities of three months or less are considered to be cash equivalents.

(c) *Investments*

Money market funds are carried at cost, which approximates fair value. All other investments are stated at fair value based upon quoted market prices. Changes in fair value are recognized as investment gains or losses and are recorded as a component of non-operating revenues.

(d) *Inventory*

Inventory consists primarily of construction materials and maintenance supplies and is valued at average cost. Inventory is expensed as it is consumed.

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(e) ***Capital Assets***

Capital assets are defined as assets with an initial individual cost of more than \$5 and an estimated useful life in excess of one year. Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. All donated capital assets and capital assets received in a service concession arrangement are valued at acquisition value at the time of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 1 to 100 years for equipment and 1 to 200 years for buildings, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and depreciation or amortization is recorded in the year of disposal.

(f) ***Intangible Assets***

Intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, leases, SBITAs, licenses, and permits. The Enterprise capitalizes purchased or internally developed intangible assets with a useful life extending beyond one reporting period. It has established a capitalization threshold of \$100. Intangible assets are amortized over the benefit period or the contract term for leases and SBITAs, except for certain assets having an indefinite useful life. Assets with an indefinite useful life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor and, therefore, are not amortized (see Note 4).

(g) ***Construction Work in Progress***

The cost of acquisition and construction of major plant and equipment is recorded as construction work in progress. Costs of construction projects that are discontinued are recorded as expenses in the year in which the decision is made to discontinue such projects.

(h) ***Bond Discount, Premium, and Issuance Costs***

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method.

(i) ***Accrued Vacation and Sick Leave***

Accrued vacation pay, which may be accumulated up to 10 weeks per employee, is charged to expense as earned. Sick leave earned subsequent to December 6, 1978 is non-vesting and may be accumulated up to six months per employee.

(j) ***Workers' Compensation***

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 14(b)).

(k) ***General Liability***

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims

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attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 14(a)).

(l) ***Arbitrage Rebate Payable***

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements of the Clean Renewable Energy Bonds (CREBs), the Qualified Energy Conservation Bonds (QECSBs), and the New Clean Renewable Energy Bonds (NCREBs) stipulate that the first payment of excess investment earnings, if any, is required to be rebated to the federal government, no later than 60 days after the end of the fifth bond year of the agreement. Hetch Hetchy did not have any arbitrage liability as of June 30, 2023 and 2022.

(m) ***Income Taxes***

As a department of a government agency, the Enterprise is exempt from both federal income taxes and California State franchise taxes.

(n) ***Revenue Recognition***

Water and power revenues are based on water and power consumption and billing rates. Generally, customers are billed monthly. Revenues earned but unbilled are accrued as charges for services receivables on the Statements of Net Position. The unbilled amounts for the fiscal years ending June 30, 2023 and 2022 are as follows:

	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>Total</u>
2023	\$ —	3,470	19,694	23,164
2022	—	3,806	21,878	25,684

(o) ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) ***Eliminations***

Eliminations for internal activities between the Hetchy Power and CleanPowerSF are made in the Statements of Net Position. There were no activities requiring eliminations for fiscal years ended June 30, 2023 and 2022.

(q) ***Accounting and Financial Reporting for Pollution Remediation Obligations***

According to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

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- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the Design Phase of projects under review by the project managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project. Examples of pollution may include, but are not limited to, asbestos or lead paint removal; leaking of sewage in underground pipes or neighboring areas; chemical spills; removal and disposal of known toxic waste; harmful biological and chemical pollution of water; or contamination of surrounding soils by underground storage tanks.

(r) *Leases*

Leases are defined as a contract that conveys control of the right to use another entity's underlying asset for a specified period. Hetch Hetchy is a lessee for various noncancellable leases of building and radio tower.

Short-term Leases – For leases with a maximum possible term of 12 months at commencement, Hetch Hetchy recognizes lease revenue if Hetch Hetchy is the lessor of the lease or lease expense if Hetch Hetchy is the lessee of the lease based on the provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Leases other than Short-term – For all other leases (i.e. those that are not short-term), Hetch Hetchy recognizes a lease liability and intangible right-to-use lease asset as lessee leases, or lease receivable and deferred inflow of resources as lessor leases.

Measurement of Lease Amounts (Lessee) – Hetch Hetchy's lease liability is recorded at the present value of future minimum lease payments as of the date of commencement. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the lease term. If Hetch Hetchy is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Measurement of Lease Amounts (Lessor) – Hetch Hetchy's lease receivable is measured at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts. Subsequently, the lease receivable is reduced by

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the principal portion of lease payments collected. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term, plus lease payments received from the lease at or before the commencement of the lease term that related to future periods. Subsequently, the deferred inflow of resources as lease revenue on a straight-line basis over the lease term.

Key Estimates and Judgements – Key estimates and judgements include how Hetch Hetchy determines (a) the discount rate it uses to calculate the present value of the expected lease payments, (b) lease terms, (c) lease payments, and (d) materiality threshold for equipment.

- Hetch Hetchy generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate is implicit in the agreement. The City's incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on City's Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table. The City's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease payments under similar terms at the commencement or remeasurement date.
- The lease term includes the noncancellable period of the lease, plus any additional periods covered by either lessee or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the lessee and lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.
- Payments are evaluated by Hetch Hetchy to determine if they should be included in the measurement of the lease receivables or lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.
- Leases have a capitalization threshold of \$100. 70% below market rent and/or ground leases are determined to be below market rent (BMR), excluded from lease capitalization.

Remeasurement of Lease – Hetch Hetchy monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable or lease liability, the receivable or liability is remeasured and a corresponding adjustment is made to the deferred inflow of resources or lease asset, respectively.

Presentation in Statements of Net Position – Lease assets are reported with current and non-current assets, lease liabilities are reported with current and long-term liabilities and both lease assets and liabilities are report under net investment in capital assets in the Statements of Net Position.

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(s) *Subscription-Based Information Technology Arrangements (SBITAs)*

SBITAs are defined as a contract that conveys control of the right to use another entity's IT software, alone or in combination with tangible capital assets for a specified period. Hetch Hetchy has noncancellable subscription arrangements (similar to a lease) for the right to use various SBITAs.

Short-term SBITAs – For SBITAs with a maximum possible term of 12 months at commencement, Hetch Hetchy recognizes subscription expense based on the provisions of the SBITAs. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

SBITAs other than Short-term – For all other SBITAs (i.e. those that are not short-term), Hetch Hetchy recognizes SBITAs liability and intangible right-to-use subscription asset.

Measurement of Subscription Amounts (Subscriber) – Hetch Hetchy's subscription liability is recorded at the present value of future minimum subscription payments as of the date of commencement. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, less payments made at or before the subscription commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any subscription incentives received at or before the subscription commencement date. For SBITAs, subscription assets also include qualify software implementation costs. Subsequently, the subscription asset is amortized into depreciation and amortization expense on a straight-line basis over the subscription term.

Key Estimates and Judgements – Key estimates and judgements include how Hetch Hetchy determines (a) the discount rate it uses to calculate the present value of the expected subscription payments, (b) subscription terms, (c) subscription payments, and (d) materiality threshold.

- Hetch Hetchy generally uses its estimated incremental borrowing rate as the discount rate for SBITAs unless the rate is implicit in the agreement. The City's incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on City's Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table.
- The subscription term includes the noncancellable period of the subscription, plus any additional periods covered by either subscriber or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the subscriber and lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the subscription term.
- Payments are evaluated by Hetch Hetchy to determine if they should be included in the measurement of the subscription liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.
- SBITAs have a capitalization threshold of \$100.

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Remeasurement of SBITAs – Hetch Hetchy monitors changes in circumstances that may require remeasurement of a SBITAs. When certain changes occur that are expected to significantly affect the amount of the subscription liability, the liability is remeasured and a corresponding adjustment is made to the subscription asset.

Presentation in Statements of Net Position – Subscription assets are reported with current and non-current assets, subscription liabilities are reported with current and long-term liabilities and both subscription assets and liabilities are reported under net investment in capital assets in the Statements of Net Position.

(t) ***Other Post-employment Benefits (OPEB)***

As prescribed under GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*, net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value (see Note 12(b)).

(u) ***New Accounting Standards Adopted in Fiscal Year 2023***

- 1) In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 enhances the compatibility and consistency of conduit debt obligation reporting and reporting of related transactions by state and local government issuers. The new standard is effective for periods beginning after December 15, 2021. The Enterprise adopted the provisions of Statement No. 91 in fiscal year 2023 which did not have a significant effect on its financial statements.
- 2) In March 2020, the GASB Issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The new standard is effective for periods beginning after June 15, 2022. The Enterprise adopted the provisions of Statement No. 94 in fiscal year 2023 which did not have a significant effect on its financial statements.
- 3) In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This Statement defines such arrangements as contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standard clarifies measurement and recognition of capitalizable costs, intangible assets, and subscription liabilities for such arrangements and also requires additional disclosures related to such arrangements. The new standard is effective for periods beginning after June 15, 2022. The Enterprise adopted the provisions of Statement No. 96 in fiscal year 2023 (see Note 10).

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As a result of adoption, the cumulative effect of applying this Statement is recorded as adjustments to the following accounts as of July 1, 2021:

	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>Total 2022</u>
Beginning balance:				
Subscription Assets	\$ 468	380	106	954
Subscription Liability - Current	(329)	(264)	(75)	(668)
Subscription Liability - Long Term	(139)	(116)	(31)	(286)
Activities:				
Subscription Assets	22	17	5	44
Accumulated Amortization	(176)	(141)	(40)	(357)
Accrued Interest Payable - Current	(3)	(2)	(1)	(6)
Subscription Liability - Current	159	127	36	322
Expenses	(2)	(1)	—	(3)
Total:				
Subscription Assets	490	397	111	998
Accumulated Amortization	(176)	(141)	(40)	(357)
Accrued Interest Payable - Current	(3)	(2)	(1)	(6)
Subscription Liability - Current	(170)	(137)	(39)	(346)
Subscription Liability - Long Term	(139)	(116)	(31)	(286)
Expenses	(2)	(1)	—	(3)
Change to net position	<u>\$ (2)</u>	<u>(1)</u>	<u>—</u>	<u>(3)</u>

(v) GASB Statements Implemented in Fiscal Year 2022

- 1) In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after June 15, 2021. Beginning balances as of July 1, 2020 were restated as the result of adoption of this standard (see Note 9).
- 2) In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of construction period. The new standard is effective for periods beginning after December 15, 2020. The Enterprise adopted the provisions of Statement No. 89 in fiscal year 2022.
- 3) In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB Statement No. 92 addresses practice issues that have been identified during implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 92 in fiscal year 2022, which did not have significant effect on its financial statements.
- 4) In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 93 in fiscal year 2022, which did not have a significant effect on its financial statements.

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(w) *Future Implementation of New Accounting Standards*

- 1) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. GASB Statement No. 99 addresses a variety of topics. The requirements related to extension of the use of the London Interbank Offered Rate, accounting for Supplemental Nutrition Assistance Program distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance and did not have a significant impact on the Enterprise for the year ended June 30, 2022. The requirements related to leases, public-public and public-private partnerships, and subscription-based information technology arrangements are effective for fiscal years beginning after June 15, 2022, and effective for the Enterprise's year ending June 30, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and effective for the Enterprise's year ending June 30, 2024. The Enterprise is currently analyzing its accounting practices to determine the potential impact of the provisions of Statement No. 99 applicable in future years.
- 2) In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The new standard is effective for periods beginning after June 15, 2023. The Enterprise will implement the provisions of Statement No. 100 in fiscal year 2024.
- 3) In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The new standard is effective for periods beginning after December 15, 2023. The Enterprise will implement the provisions of Statement No. 101 in fiscal year 2025.

(x) *Reclassifications*

Certain reclassifications are made to the prior period to conform to the current period presentation. For fiscal year 2022, restricted net pension assets in the amount of \$32,749 was reclassified from unrestricted to restricted for other purposes in the Statements of Net Position.

(3) **Cash, Cash Equivalents, and Investments**

Hetch Hetchy's cash, cash equivalents, and investments with the City Treasury are invested in an unrated City pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy guidelines are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio, which may be invested in certain instruments with longer terms to maturity. The City Treasurer allocates income from the investment of pooled cash at month-end in proportion to Hetch Hetchy's average daily cash balances. The primary objectives of Hetch Hetchy's investment policy are consistent with the City's policy.

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The balances as of June 30, 2023 and 2022 were \$9,211 and \$14,052,

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respectively. The Enterprise held all investments in guaranteed investment contracts, treasury and government obligations, commercial paper, corporate bonds, and notes, as well as money market mutual funds consisting of treasury and government obligations. The balance as of June 30, 2023 included 2021 Series AB bond proceeds of \$5,382, 2015 Series A bond proceeds of \$2,261, certificates of participation proceeds of \$1,015, 2015 Series B bond proceeds of \$532, \$154 held at a commercial bank in a non-interest-bearing checking account that is covered by depository insurance, and commercial paper of \$21. The balance as of June 30, 2022 included 2021 Series AB bond proceeds of \$10,346, 2015 Series A bond proceeds of \$2,194, certificates of participation proceeds of \$981, 2015 Series B bond proceeds of \$516, \$17 held at a commercial bank in a non-interest-bearing checking account that is covered by depository insurance, and commercial paper of \$15.

Hetch Hetchy did not have any unrealized gain and loss in the restricted cash and investments outside City Treasury as of June 30, 2023 and 2022.

Hetch Hetchy categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

Commercial paper is valued using a variety of techniques such as matrix pricing; market corroborated pricing inputs such as yield curve, indices, and other market related data. Commercial paper, money market investments, and cash and cash equivalents are exempt from fair value treatment under GASB Statement No. 72.

The following is a summary of the Hetch Hetchy restricted and unrestricted cash and investments outside City Treasury and the fair value hierarchy as of June 30, 2023 and 2022.

Hetch Hetchy Cash and Investments outside City Treasury					Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	June 30, 2023		Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
		Maturities	Fair Value				
Hetchy Power							
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	\$ 9,190	9,190	-	-	-
Cash and Cash Equivalents	N/A		21	21	-	-	-
Total Restricted Cash and Investments outside City Treasury			\$ 9,211	9,211	-	-	-
Cash and Cash Equivalents	N/A		\$ 154	154	-	-	-
Total Unrestricted Cash and Investments outside City Treasury			\$ 154	154	-	-	-

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Hetch Hetchy Cash and Investments outside City Treasury					Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	June 30, 2022		Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
		Maturities	Fair Value				
Hetchy Water							
Cash and Cash Equivalents	N/A		\$ 1	1		-	-
Total Unrestricted Cash and Investments outside City Treasury			\$ 1	1	-	-	-
Hetchy Power							
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	\$ 14,037	14,037	-	-	-
Cash and Cash Equivalents	N/A		15	15	-	-	-
Total Restricted Cash and Investments outside City Treasury			\$ 14,052	14,052	-	-	-
Cash and Cash Equivalents	N/A		\$ 16	16	-	-	-
Total Unrestricted Cash and Investments outside City Treasury			\$ 16	16	-	-	-

For fiscal year 2023, proceeds from 2021 Series AB and 2015 Series AB bonds held as restricted cash and investments outside City Treasury in the amount of \$8,175 were invested in U.S. Treasury Money Market with maturity date less than 90 days. For fiscal year 2022, proceeds from 2021 Series AB and 2015 Series AB bonds held as restricted cash and investments outside City Treasury in the amount of \$13,056 were invested in U.S. Treasury Money Market with maturity date less than 90 days. The credit ratings of the U.S. Treasury Money Market as of June 30, 2023 and 2022 were "AAAm" by S&P and "Aaa-mf" by Moody's.

Hetch Hetchy's cash, cash equivalents, and investments are shown on the accompanying Statements of Net Position as of June 30, 2023 and 2022:

	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>Total 2023</u>
Current assets:				
Cash and investments with City Treasury	\$ 76,973	224,234	98,657	399,864
Cash and investments outside City Treasury	-	154	-	154
Restricted cash and investments outside City Treasury	-	5,371	-	5,371
Non-current assets:				
Restricted cash and investments with City Treasury	10,980	17,606	-	28,586
Restricted cash and investments outside City Treasury	-	3,840	-	3,840
Total cash, cash equivalents, and investments	<u>\$ 87,953</u>	<u>251,205</u>	<u>98,657</u>	<u>437,815</u>
	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>Total 2022</u>
Current assets:				
Cash and investments with City Treasury	\$ 94,190	189,641	56,234	340,065
Cash and investments outside City Treasury	1	16	-	17
Restricted cash and investments outside City Treasury	-	5,228	-	5,228
Non-current assets:				
Restricted cash and investments outside City Treasury	-	8,824	-	8,824
Total cash, cash equivalents, and investments	<u>\$ 94,191</u>	<u>203,709</u>	<u>56,234</u>	<u>354,134</u>

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Notes to Financial Statements

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The following table shows the percentage distribution of the City's pooled investment by maturity:

Fiscal years ended June 30	Investment maturities (in months)			
	Under 1	1 to less than 6	6 to less than 12	12 to 60
2023	21.5%	18.0%	14.5%	46.0%
2022	20.2%	14.0%	14.9%	50.9%

(4) Capital Assets

a) Hetch Hetchy capital assets as of June 30, 2023 and 2022 consist of the following:

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 5,181	—	—	5,181
Intangible assets**	1,437	—	—	1,437
Construction work in progress	316,530	100,380	(46,440) †	370,470
Total capital assets not being depreciated and amortized	323,148	100,380	(46,440)	377,088
Capital assets being depreciated and amortized:				
Facilities and improvements	809,945	45,845	—	855,790
Intangible assets	45,715	140	—	45,855
Machinery and equipment	148,241	4,169	(185)	152,225
Total capital assets being depreciated and amortized	1,003,901	50,154 *	(185)	1,053,870
Less accumulated depreciation and amortization for:				
Facilities and improvements	(423,731)	(18,521)	—	(442,252)
Intangible assets	(22,680)	(460)	—	(23,140)
Machinery and equipment	(93,995)	(5,054)	183	(98,866)
Total accumulated depreciation and amortization	(540,406)	(24,035)	183	(564,258)
Total capital assets being depreciated and amortized, net	463,495	26,119	(2)	489,612
Total capital assets, net	\$ 786,643	126,499	(46,442)	866,700

* Decrease in construction in progress included \$403 in capital project write-offs, mainly related to 2018 Moccasin Storm Project. The remaining difference of \$4,117 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

	2021	Increases	Decreases	2022
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 5,181	—	—	5,181
Intangible assets**	1,437	—	—	1,437
Construction work in progress	206,508	140,513	(30,491) †	316,530
Total capital assets not being depreciated and amortized	213,126	140,513	(30,491)	323,148
Capital assets being depreciated and amortized:				
Facilities and improvements	782,963	26,982	—	809,945
Intangible assets	45,715	—	—	45,715
Machinery and equipment	144,323	4,005	(87)	148,241
Total capital assets being depreciated and amortized	973,001	30,987 *	(87)	1,003,901
Less accumulated depreciation and amortization for:				
Facilities and improvements	(405,446)	(18,285)	—	(423,731)
Intangible assets	(22,220)	(460)	—	(22,680)
Machinery and equipment	(88,924)	(5,158)	87	(93,995)
Total accumulated depreciation and amortization	(516,590)	(23,903)	87	(540,406)
Total capital assets being depreciated and amortized, net	456,411	7,084	—	463,495
Total capital assets, net	\$ 669,537	147,597	(30,491)	786,643

* Decrease in construction in progress included \$655 in capital project write-offs, mainly related to Hope San Francisco Project in Sunnydale and Potrero. The remaining difference of \$1,151 to capital asset additions was offset by direct additions to machinery and equipment.

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(Dollars in thousands, unless otherwise stated)

b) Hetchy Water capital assets as of June 30, 2023 and 2022 consist of the following:

	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>2023</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 3,232	—	—	3,232
Intangible assets**	6	—	—	6
Construction work in progress	54,138	25,032	(6,720) †	72,450
Total capital assets not being depreciated and amortized	<u>57,376</u>	<u>25,032</u>	<u>(6,720)</u>	<u>75,688</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	306,116	5,196	—	311,312
Intangible assets	20,522	—	—	20,522
Machinery and equipment	28,383	1,566	(58)	29,891
Total capital assets being depreciated and amortized	<u>355,021</u>	<u>6,762</u> *	<u>(58)</u>	<u>361,725</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(179,839)	(5,227)	—	(185,066)
Intangible assets	(10,154)	(207)	—	(10,361)
Machinery and equipment	(21,397)	(893)	58	(22,232)
Total accumulated depreciation and amortization	<u>(211,390)</u>	<u>(6,327)</u>	<u>58</u>	<u>(217,659)</u>
Total capital assets being depreciated and amortized, net	<u>143,631</u>	<u>435</u>	<u>—</u>	<u>144,066</u>
Total capital assets, net	<u>\$ 201,007</u>	<u>25,467</u>	<u>(6,720)</u>	<u>219,754</u>

* Decrease in construction in progress included \$192 in capital project write-offs, mainly related to Hetchy Water's share of 2018 Moccasin Storm Project. The remaining difference of \$234 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 3,232	—	—	3,232
Intangible assets**	6	—	—	6
Construction work in progress	35,333	29,654	(10,849) †	54,138
Total capital assets not being depreciated and amortized	<u>38,571</u>	<u>29,654</u>	<u>(10,849)</u>	<u>57,376</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	295,968	10,148	—	306,116
Intangible assets	20,522	—	—	20,522
Machinery and equipment	27,518	865	—	28,383
Total capital assets being depreciated and amortized	<u>344,008</u>	<u>11,013</u> *	<u>—</u>	<u>355,021</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(174,695)	(5,144)	—	(179,839)
Intangible assets	(9,947)	(207)	—	(10,154)
Machinery and equipment	(20,456)	(941)	—	(21,397)
Total accumulated depreciation and amortization	<u>(205,098)</u>	<u>(6,292)</u>	<u>—</u>	<u>(211,390)</u>
Total capital assets being depreciated and amortized, net	<u>138,910</u>	<u>4,721</u>	<u>—</u>	<u>143,631</u>
Total capital assets, net	<u>\$ 177,481</u>	<u>34,375</u>	<u>(10,849)</u>	<u>201,007</u>

* Decrease in construction in progress included \$7 in capital project write-offs, mainly related to Hetchy Water's share of road improvement projects. The remaining difference of \$171 to capital asset additions was offset by direct additions to machinery and equipment.

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Notes to Financial Statements

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(Dollars in thousands, unless otherwise stated)

c) Hetchy Power capital assets as of June 30, 2023 and 2022 consist of the following:

	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>2023</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 1,949	—	—	1,949
Intangible assets**	1,431	—	—	1,431
Construction work in progress	262,392	75,348	(39,720) †	298,020
Total capital assets not being depreciated and amortized	<u>265,772</u>	<u>75,348</u>	<u>(39,720)</u>	<u>301,400</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	503,829	40,649	—	544,478
Intangible assets	25,193	140	—	25,333
Machinery and equipment	119,858	2,603	(127)	122,334
Total capital assets being depreciated and amortized	<u>648,880</u>	<u>43,392</u> *	<u>(127)</u>	<u>692,145</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(243,892)	(13,294)	—	(257,186)
Intangible assets	(12,526)	(253)	—	(12,779)
Machinery and equipment	(72,598)	(4,161)	125	(76,634)
Total accumulated depreciation and amortization	<u>(329,016)</u>	<u>(17,708)</u>	<u>125</u>	<u>(346,599)</u>
Total capital assets being depreciated and amortized, net	<u>319,864</u>	<u>25,684</u>	<u>(2)</u>	<u>345,546</u>
Total capital assets, net	<u>\$ 585,636</u>	<u>101,032</u>	<u>(39,722)</u>	<u>646,946</u>

* Decrease in construction in progress included \$211 in capital project write-offs, mainly related to Hetchy Power's share of 2018 Moccasin Storm Project. The remaining difference of \$3,883 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 1,949	—	—	1,949
Intangible assets**	1,431	—	—	1,431
Construction work in progress	171,175	110,859	(19,642) *	262,392
Total capital assets not being depreciated and amortized	<u>174,555</u>	<u>110,859</u>	<u>(19,642)</u>	<u>265,772</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	486,995	16,834	—	503,829
Intangible assets	25,193	—	—	25,193
Machinery and equipment	116,805	3,140	(87)	119,858
Total capital assets being depreciated and amortized	<u>628,993</u>	<u>19,974</u> *	<u>(87)</u>	<u>648,880</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(230,751)	(13,141)	—	(243,892)
Intangible assets	(12,273)	(253)	—	(12,526)
Machinery and equipment	(68,468)	(4,217)	87	(72,598)
Total accumulated depreciation and amortization	<u>(311,492)</u>	<u>(17,611)</u>	<u>87</u>	<u>(329,016)</u>
Total capital assets being depreciated and amortized, net	<u>317,501</u>	<u>2,363</u>	<u>—</u>	<u>319,864</u>
Total capital assets, net	<u>\$ 492,056</u>	<u>113,222</u>	<u>(19,642)</u>	<u>585,636</u>

* Decrease in construction in progress included \$648 in capital project write-offs, mainly related to Hope San Francisco Project in Sunnydale and Potrero. The remaining difference of \$980 to capital asset additions was offset by direct additions to machinery and equipment.

**See Notes 9 and 10 for additional information about the leases and SBITAs.

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Notes to Financial Statements

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(5) Restricted Assets

Pursuant to the Hetchy Power Trust Indenture (the "Indenture"), established in fiscal year 2015, net revenues of the Hetchy Power are pledged first to the 2015 Series AB Bonds and 2021 Series AB Bonds, and have a priority lien on the pledge of net revenues to the outstanding CREBs, QECBs, and NCREBs (the "Subordinate Obligations"). The Lease/Purchase Agreements for the Subordinate Obligations pledge the net revenues of the Hetchy Power to these bonds, and such pledge is subordinate in lien to the net revenues pledged for the 2015 Series AB Bonds and 2021 Series AB Bonds (the "Bonds" or "Bond").

In the Indenture, the SFPUC covenants and agrees that it will pay into the Revenue Fund as received all Revenues of Hetchy Power and shall be used and applied, as provided by the Indenture, solely for the purposes of operating and maintaining Hetchy Power and paying all costs, charges, and expenses in connection therewith and for the purpose of making repairs, renewals, and replacements to Hetchy Power and constructing additions, betterments, and extensions thereto.

The Indenture provides that Revenues deposited in the Revenue Fund shall be disbursed in the following order of priority:

1. The payment of operation and maintenance expenses;
2. Any priority reconstruction and replacement fund deposits;
3. Deposit in the interest account of each Bond Fund;
4. Deposit in the bond retirement account of each Bond Fund;
5. Deposit in the reserve fund;
6. (i) Payment of principal and premium, if any, and interest on any Subordinate Obligations; (ii) deposit into a reserve fund securing any Subordinate Obligations; (iii) Swap Agreement payments pursuant to Swap Agreements entered into by the SFPUC with respect to any Subordinate Obligations; and (iv) payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal or interest on any Subordinate Obligations; in each case in any order of priority within this paragraph which may be hereafter established by the SFPUC resolution;
7. Any additional reconstruction and replacement fund deposits into the reconstruction and replacement fund;
8. Any necessary or desirable capital additions or improvements to the Hetchy Power;
9. Any payment under a Take-or-Pay Power Purchase Agreement that does not constitute an operation and maintenance expense;
10. Any payment under a Swap Agreement that does not constitute a Swap Agreement payment; and
11. Any other lawful purpose of the SFPUC.

In the Indenture, the SFPUC covenants and agrees to transfer to the Trustee for deposit in the Interest Account of each applicable Bond Fund all Refundable Credits received by the SFPUC.

In accordance with the Agreements, Hetch Hetchy maintains certain restricted cash and investment balances in trust.

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(Dollars in thousands, unless otherwise stated)

(a) Hetchy Water has the following restricted assets held in trust as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	\$ 10,980	—
Total restricted assets	\$ 10,980	—

(b) Hetchy Power has the following restricted assets held in trust as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	\$ 17,606	—
Cash and investments outside City Treasury:		
2009 Series C Certificates of participation - 525 Golden Gate	231	223
2009 Series D Certificates of participation - 525 Golden Gate	784	758
2015 Series A Revenue Bonds	2,261	2,194
2015 Series B Revenue Bonds	532	516
2021 Series AB Revenue Bonds	5,382	10,346
Commercial Paper	21	15
Total restricted cash and investments outside City Treasury	9,211	14,052
Interest and other receivables:		
Hetch Hetchy bond construction fund	4,151	4,303
Total restricted assets	\$ 30,968	18,355

Restricted assets listed above as cash and investments with City Treasury are held in fund accounts within the Hetch Hetchy Revenue Fund.

(6) Short-Term Debt

Effective March 2019, under Charter Sections 9.107(6) and 9.107(8), and 2018 Proposition A, the Commission and Board of Supervisors authorized the issuance of up to \$250,000 in commercial paper notes for the purpose of reconstructing, replacing, expanding, repairing or improving power facilities of Hetchy Power. Interest rates for the commercial paper ranged from 1.1% to 3.2% and 0.1% to 1.1% in fiscal years 2023 and 2022, respectively. The Enterprise had \$116,352 and \$40,019 commercial paper outstanding as of June 30, 2023 and 2022, respectively. The Enterprise had \$133,648 and \$209,981 in unused authorization as of June 30, 2023 and 2022, respectively.

\$116,352 was repaid by the 2023 Series A bonds issued on October 12, 2023 and has been reclassified to long-term liabilities on the June 30, 2023 financial statements (See Note 16).

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, Significant Events of default as specified in the Reimbursement Agreements include 1) non-payment, 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements and 3) bankruptcy, which may result in all outstanding obligations to be immediately due and payable (unless waived by the respective Bank, if applicable); or issuance of a No-Issuance Notice, reduction in credit to outstanding amount plus interest coverage, and/or termination of the respective agreement. As of June 30, 2023, there were no such events described herein.

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(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

a) Hetch Hetchy's long-term liability activities for the years ended June 30, 2023 and 2022 are as follows:

	Interest rate	Maturity (Calendar Year)	Restated 2022*	Additions	Reductions	2023	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 421	—	(421)	—	—
Qualified Energy Conservation Bonds	4.74	2027	3,138	—	(555)	2,583	562
New Clean Renewable Energy Bonds 2015	4.62	2032	1,637	—	(146)	1,491	148
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	3,735	—	(850)	2,885	880
2021 Series A Revenue Bonds	4.00 - 5.00	2052	74,280	—	—	74,280	—
2021 Series B Revenue Bonds	4.00 - 5.00	2052	49,720	—	—	49,720	—
Less issuance discount			(6)	—	6	—	—
Add issuance premiums			29,536	—	(1,588)	27,948	—
Total bonds payable			194,486	—	(3,554)	190,932	1,590
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	425	—	(425)	—	—
2009 Series C COPs issuance premiums			2	—	(2)	—	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	445
Commercial paper	1.05 - 3.15		—	116,352	—	116,352	—
Other post-employment benefits obligations			33,909	3,271	—	37,180	—
Net pension liability			—	33,468	—	33,468	—
Accrued vacation and sick leave			6,312	2,989	(2,576)	6,725	3,393
Accrued workers' compensation			3,478	300	(321)	3,457	617
Damage claims liability			1,682	12,497	(7,295)	6,884	766
Due to other City departments			380	1,946	(380)	1,946	1,946
Lease liability			369	236	(298)	307	35
Subscription liability			632	—	(346)	286	163
Unearned revenues, refunds, and other			20,057	33,434	(40,775)	12,716	12,136
Total			\$ 274,325	204,493	(55,972)	422,846	21,091

	Interest rate	Maturity (Calendar Year)	2021	Additions	Reductions	Restated 2022*	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 843	—	(422)	421	421
Qualified Energy Conservation Bonds	4.74	2027	3,687	—	(549)	3,138	555
New Clean Renewable Energy Bonds 2015	4.62	2032	1,779	—	(142)	1,637	146
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	4,550	—	(815)	3,735	850
2021 Series A Revenue Bonds	4.00 - 5.00	2052	—	74,280	—	74,280	—
2021 Series B Revenue Bonds	4.00 - 5.00	2052	—	49,720	—	49,720	—
Less issuance discount			(20)	—	14	(6)	(6)
Add issuance premiums			3,448	27,022	(934)	29,536	—
Total bonds payable			46,312	151,022	(2,848)	194,486	1,966
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	830	—	(405)	425	425
2009 Series C COPs issuance premiums			8	—	(6)	2	2
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			35,006	5,135	(6,232)	33,909	—
Net pension liability			62,219	—	(62,219)	—	—
Accrued vacation and sick leave			6,202	2,869	(2,759)	6,312	3,060
Accrued workers' compensation			3,238	555	(315)	3,478	615
Damage claims liability			1,639	3,840	(3,797)	1,682	601
Due to other City departments			369	11	—	380	380
Lease liability			749	—	(380)	369	238
Subscription liability			—	954	(322)	632	346
Unearned revenues, refunds, and other			16,159	23,113	(19,215)	20,057	10,143
Total			\$ 185,324	187,499	(98,498)	274,325	17,776

*Restated per GASB Statement No. 96, SBITAs.

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- b) Hetchy Water's long-term liability activities for the years ended June 30, 2023 and 2022 are as follows:

	<u>Restated 2022*</u>	<u>Additions</u>	<u>Reductions</u>	<u>2023</u>	<u>Due within one year</u>
Other post-employment benefits obligations	\$ 14,240	667	—	14,907	—
Net pension liability	—	14,105	—	14,105	—
Accrued vacation and sick leave	2,169	700	(603)	2,266	1,132
Accrued workers' compensation	1,228	76	(85)	1,219	216
Damage claims liability	627	320	(247)	700	300
Lease liability	62	105	(29)	138	16
Subscription liability	309	—	(170)	139	80
Unearned revenues, refunds, and other	134	15	(39)	110	110
Total	<u>\$ 18,769</u>	<u>15,988</u>	<u>(1,173)</u>	<u>33,584</u>	<u>1,854</u>

	<u>2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Restated 2022*</u>	<u>Due within one year</u>
Other post-employment benefits obligations	\$ 14,444	1,921	(2,125)	14,240	—
Net pension liability	26,645	—	(26,645)	—	—
Accrued vacation and sick leave	2,185	749	(765)	2,169	1,034
Accrued workers' compensation	1,120	233	(125)	1,228	215
Damage claims liability	525	253	(151)	627	228
Lease liability	78	—	(16)	62	3
Subscription liability	—	468	(159)	309	170
Unearned revenues, refunds, and other	138	14	(18)	134	24
Total	<u>\$ 45,135</u>	<u>3,638</u>	<u>(30,004)</u>	<u>18,769</u>	<u>1,674</u>

*Restated per GASB Statement No. 96, SBITAs.

- c) Hetchy Power's long-term liability activities for the years ended June 30, 2023 and 2022 are as follows:

	<u>Interest rate</u>	<u>Maturity (Calendar Year)</u>	<u>Restated 2022*</u>	<u>Additions</u>	<u>Reductions</u>	<u>2023</u>	<u>Due within one year</u>
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 421	—	(421)	—	—
Qualified Energy Conservation Bonds	4.74	2027	3,138	—	(555)	2,583	562
New Clean Renewable Energy Bonds 2015	4.62	2032	1,637	—	(146)	1,491	148
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	3,735	—	(850)	2,885	880
2021 Series A Revenue Bonds	4.00 - 5.00	2052	74,280	—	—	74,280	—
2021 Series B Revenue Bonds	4.00 - 5.00	2052	49,720	—	—	49,720	—
Less issuance discount			(6)	—	6	—	—
Add issuance premiums			29,536	—	(1,588)	27,948	—
Total bonds payable			<u>194,486</u>	<u>—</u>	<u>(3,554)</u>	<u>190,932</u>	<u>1,590</u>
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	425	—	(425)	—	—
2009 Series C COPs issuance premiums			2	—	(2)	—	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	445
Commercial paper	1.05 - 3.15		—	116,352	—	116,352	—
Other post-employment benefits obligations			17,405	815	—	18,220	—
Net pension liability			—	17,239	—	17,239	—
Accrued vacation and sick leave			3,597	1,838	(1,719)	3,716	1,867
Accrued workers' compensation			2,250	224	(236)	2,238	401
Damage claims liability			1,023	10,439	(5,312)	6,150	450
Due to other City departments			380	1,946	(380)	1,946	1,946
Lease liability			75	131	(37)	169	19
Subscription liability			253	—	(137)	116	65
Unearned revenues, refunds, and other			6,727	10,385	(10,652)	6,460	5,880
Total			<u>\$ 239,216</u>	<u>159,369</u>	<u>(22,454)</u>	<u>376,131</u>	<u>12,663</u>

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	Interest rate	Maturity (Calendar Year)	2021	Additions	Reductions	Restated 2022*	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 843	–	(422)	421	421
Qualified Energy Conservation Bonds	4.74	2027	3,687	–	(549)	3,138	555
New Clean Renewable Energy Bonds 2015	4.62	2032	1,779	–	(142)	1,637	146
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	4,550	–	(815)	3,735	850
2021 Series A Revenue Bonds	4.00 - 5.00	2052	–	74,280	–	74,280	–
2021 Series B Revenue Bonds	4.00 - 5.00	2052	–	49,720	–	49,720	–
Less issuance discount			(20)	–	14	(6)	(6)
Add issuance premiums			3,448	27,022	(934)	29,536	–
Total bonds payable			46,312	151,022	(2,848)	194,486	1,966
2009 Series C Certificates of participation (COPs) 2.00 - 5.00		2022	830	–	(405)	425	425
2009 Series C COPs issuance premiums			8	–	(6)	2	2
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			17,653	2,347	(2,595)	17,405	–
Net pension liability			32,566	–	(32,566)	–	–
Accrued vacation and sick leave			3,617	1,856	(1,876)	3,597	1,747
Accrued workers' compensation			2,118	322	(190)	2,250	400
Damage claims liability			1,108	2,005	(2,090)	1,023	358
Due to other City departments			369	11	–	380	380
Lease liability			94	–	(19)	75	3
Subscription liability			–	380	(127)	253	137
Unearned revenues, refunds, and other			5,993	8,410	(7,676)	6,727	5,923
Total			\$ 123,261	166,353	(50,398)	239,216	11,341

*Restated per GASB Statement No. 96, SBITAs.

- d) CleanPowerSF's long-term liability activities for the years ended June 30, 2023 and 2022 are as follows:

	Restated 2022*	Additions	Reductions	2023	Due within one year
Other post-employment benefits obligations	\$ 2,264	1,789	–	4,053	–
Net pension liability	–	2,124	–	2,124	–
Accrued vacation and sick leave	546	451	(254)	743	394
Damage claims liability	32	1,738	(1,736)	34	16
Lease liability	232	–	(232)	–	–
Subscription liability	70	–	(39)	31	18
Unearned revenues, refunds, and other	13,196	23,034	(30,084)	6,146	6,146
Total	\$ 16,340	29,136	(32,345)	13,131	6,574

	2021	Additions	Reductions	Restated 2022*	Due within one year
Other post-employment benefits obligations	\$ 2,909	867	(1,512)	2,264	–
Net pension liability	3,008	–	(3,008)	–	–
Accrued vacation and sick leave	400	264	(118)	546	279
Damage claims liability	6	1,582	(1,556)	32	15
Lease liability	577	–	(345)	232	232
Subscription liability	–	106	(36)	70	39
Unearned revenues, refunds, and other	10,028	14,689	(11,521)	13,196	4,196
Total	\$ 16,928	17,508	(18,096)	16,340	4,761

*Restated per GASB Statement No. 96, SBITAs.

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(a) *Clean Renewable Energy Bonds*

In November 2008, Hetchy Power issued \$6,325 of taxable CREBs to finance the installation of solar energy equipment on City-owned facilities, including Chinatown Branch Library, Maxine Hall Medical Center, City Distribution Division Warehouse, North Point Wastewater Plant, Chinatown Public Health Center, Municipal Transportation Agency Woods, and Municipal Transportation Agency Ways and Structures. The CREBs were non-rated and privately-placed with Banc of America Leasing. The net effective interest rate on the CREBs, after the federal tax subsidy, is 0% through 2022. Hetchy Power began making principal payments in the amount of \$422 on December 15, 2008 and matured with the last principal payment made on December 15, 2022. Funding for these payments will be guaranteed by net power revenues. Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

(b) *Qualified Energy Conservation Bonds*

In December 2011, Hetchy Power issued \$8,291 of taxable QECBs. The QECBs were issued to fund certain qualified green components for the SFPUC's 525 Golden Gate Headquarters project. The QECBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the QECBs, after the federal tax subsidy, is 1.2% through 2028.

The future annual debt service relating to the QECBs outstanding as of June 30, 2023 is as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest before subsidy</u>	<u>Federal interest subsidy*</u>	<u>Interest net of subsidy</u>
2024	\$ 562	116	(82)	34
2025	569	89	(63)	26
2026	576	62	(44)	18
2027	582	35	(24)	11
2028	294	7	(4)	3
	<u>2,583</u>	<u>309</u>	<u>(217)</u>	<u>92</u>
Less: Current portion	(562)			
Long-term portion as of June 30, 2023	<u>\$ 2,021</u>			

* The SFPUC received an IRS notice dated May 25, 2023 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$13 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(c) *New Clean Renewable Energy Bonds 2015*

In October 2015, Hetchy Power issued \$4,100 of taxable 2015 NCREBs. The 2015 NCREBs were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the 2015 NCREBs, after the federal tax subsidy, is 1.4% through 2033. \$1,272 of principal was prepaid in fiscal year 2021.

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The future annual debt service relating to the 2015 NCREBs outstanding as of June 30, 2023 is as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest before subsidy</u>	<u>Federal interest subsidy*</u>	<u>Interest net of subsidy</u>
2024	\$ 148	67	(44)	23
2025	150	60	(40)	20
2026	152	53	(35)	18
2027	154	47	(31)	16
2028	156	39	(26)	13
2029-2033	731	85	(56)	29
	<u>1,491</u>	<u>351</u>	<u>(232)</u>	<u>119</u>
Less: Current portion		(148)		
Long-term portion as of June 30, 2023	\$ <u>1,343</u>			

* The SFPUC received an IRS notice dated May 25, 2023 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$14 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(d) Power Revenue Bonds 2015 Series A (Green) and Series B

In May 2015, Hetchy Power issued tax-exempt revenue bonds, 2015 Series A (Green) in the amount of \$32,025 with interest rates ranging from 4.0% to 5.0% and 2015 Series B in the amount of \$7,530 with interest rates ranging from 3.0% to 4.0%. Proceeds from the bonds were used to finance reconstruction or replacement of existing facilities of the SFPUC's Hetch Hetchy project, to fund capitalized interest on the 2015 Series AB Bonds, to fund a debt service reserve account for the 2015 Series AB Bonds, and to pay costs of issuance of the 2015 Series AB bonds. The bonds were rated "A+" and "AA-" by S&P and Fitch, respectively. Final maturity for 2015 Series AB are November 1, 2045 and November 1, 2026, respectively. The true interest cost is 3.95%. As of June 30, 2023 and 2022, the outstanding principal amounts were \$34,910 and \$35,760, respectively.

The future annual debt service relating to the 2015 Series AB Bonds outstanding as of June 30, 2023 are as follows:

Hetchy Power - Power Revenue Bonds 2015 Series A (Green)

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ —	1,593	1,593
2025	—	1,593	1,593
2026	—	1,593	1,593
2027	830	1,576	2,406
2028	1,020	1,534	2,554
2029-2033	5,930	6,831	12,761
2034-2038	7,565	5,153	12,718
2039-2043	9,650	3,011	12,661
2044-2046	7,030	539	7,569
	<u>32,025</u>	<u>23,423</u>	<u>55,448</u>
Add: Unamortized bond premium		2,960	
Long-term portion as of June 30, 2023	\$ <u>34,985</u>		

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Hetchy Power - Power Revenue Bonds 2015 Series B

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 880	93	973
2025	910	62	972
2026	945	25	970
2027	150	3	153
	<u>2,885</u>	<u>183</u>	<u>3,068</u>
Less: Current portion	(880)		
Add: Unamortized bond premium	63		
Long-term portion as of June 30, 2023	<u>\$ 2,068</u>		

(e) Power Revenue Bonds 2021 Series A (Green) and Series B

In December 2021, Hetchy Power issued tax-exempt revenue bonds, 2021 Series A (Green) in the amount of \$74,280 with interest rates ranging from 4.0% to 5.0% and 2021 Series B in the amount of \$49,720 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used to refinance a portion of the costs of various capital projects benefiting the Power Enterprise, to fund capitalized interest on the 2021 Series AB Bonds, and to pay costs of issuance. The bonds were rated “AA” and “AA-” by S&P and Fitch, respectively. Final maturity for 2021 Series AB are November 1, 2051. The true interest cost is 2.64%. As of June 30, 2023 and 2022, the outstanding principal amount was \$124,000. The future annual debt service relating to the 2021 Series AB Bonds outstanding as of June 30, 2023 are as follows:

Hetchy Power - Power Revenue Bonds 2021 Series A (Green)

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ —	3,085	3,085
2025	1,385	3,050	4,435
2026	1,455	2,979	4,434
2027	1,530	2,905	4,435
2028	1,605	2,826	4,431
2029-2033	9,305	12,868	22,173
2034-2038	11,470	10,690	22,160
2039-2043	14,020	8,149	22,169
2044-2048	17,125	5,045	22,170
2049-2052	16,385	1,343	17,728
	<u>74,280</u>	<u>52,940</u>	<u>127,220</u>
Add: Unamortized bond premium	15,023		
Long-term portion as of June 30, 2023	<u>\$ 89,303</u>		

Hetchy Power - Power Revenue Bonds 2021 Series B

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ —	2,045	2,045
2025	585	2,030	2,615
2026	620	2,000	2,620
2027	650	1,969	2,619
2028	685	1,935	2,620
2029-2033	3,940	9,120	13,060
2034-2038	4,985	8,168	13,153
2039-2043	6,200	7,052	13,252
2044-2048	12,885	5,464	18,349
2049-2052	19,170	1,573	20,743
	<u>49,720</u>	<u>41,356</u>	<u>91,076</u>
Add: Unamortized bond premium	9,902		
Long-term portion as of June 30, 2023	<u>\$ 59,622</u>		

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(f) *Certificates of Participation Issued for the 525 Golden Gate Headquarters Building*

In October 2009, the City issued \$167,670 in certificates of participation to fund construction of the headquarters of the SFPUC at 525 Golden Gate Avenue. The 2009 Series C certificates were issued for \$38,120 and 2009 Series D for \$129,550 as “Build America Bonds” (BABs) on a taxable basis under the 2009 American Recovery and Reinvestment Act. The 2009 Series C certificates carry interest rates ranging from 2.0% to 5.0% and mature on November 1, 2022. The 2009 Series D certificates carry interest rates ranging from 6.4% to 6.5% and mature on November 1, 2041. After adjusting Series D for the federal interest subsidy, the true interest cost averages 3.4% and 4.3% for Series C and Series D certificates, respectively.

Under the terms of a Memorandum of Understanding between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee, the Bank of New York Mellon Trust Company, N.A., which was replaced by U.S. Bank in March 2014 under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City’s use under a project lease. The City is obligated under the project lease to pay base rental payments and other payments to the Trustee each year during the 32-year term of the project lease. The Commission makes annual base rental payments to the City for the building equal to annual debt service on the certificates. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. Hetchy Power’s share is reflected on the Hetchy Power fund statements. There are no events of default stated in this memorandum of understanding.

The Power, Water, and Wastewater Enterprises have ownership interest in the building equal to their projected usage of space as follows: Water (73%), Wastewater (15%), and Power (12%). Similarly, each Enterprise is responsible for a portion of the annual base rental payment based on their ownership percentages less contributed equity. The percentage share of base rental payments for the Enterprises is as follows: Water (71.4%), Wastewater (18.9%), and Power (9.7%). Certificates of participation 2009 Series C have been fully repaid as of June 30, 2023.

The future annual debt service relating to the certificates of participation 2009 Series D outstanding as of June 30, 2023 is as follows:

	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:				
2024	\$ 445	798	(263)	535
2025	463	769	(254)	515
2026	483	739	(244)	495
2027	503	709	(234)	475
2028	524	675	(223)	452
2029-2033	2,972	2,833	(935)	1,898
2034-2038	3,665	1,762	(581)	1,181
2039-2042	3,538	471	(156)	315
	<u>12,593</u>	<u>8,756</u>	<u>(2,890)</u>	<u>5,866</u>
Less: Current portion		(445)		
Long-term portion as of June 30, 2023	\$ <u>12,148</u>			

* The SFPUC received an IRS notice dated May 25, 2023 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$174 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(g) *Events of Default and Remedies*

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, significant events of default as specified in the Power Enterprise Indenture (applicable to Power Revenue Bonds and energy bonds) and the

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Equipment Lease/Purchase Agreement include 1) non-payment, 2) material breach of warranty, representation, or indenture covenants (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations), declare the principal and the interest accrued thereon to be due and payable immediately. As of June 30, 2023 and 2022, there were no such events described herein.

(8) Revenue Pledge

Hetchy Power has pledged future power revenues to repay the 2008 CREBs, the 2011 QECBs, and the 2015 NCREBs. Additionally, Hetchy Power has pledged future power revenues for 2015 Series AB and 2021 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. 2015 Series AB and 2021 Series AB power revenue bonds are payable through fiscal year 2046 and 2052, respectively, and are solely payable from net revenues of Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, and the 2015 NCREBs.

The original amount of bonds issued, total principal and interest remaining, principal and interest paid during fiscal years 2023 and 2022, applicable net revenues, and funds available for debt service are as follows:

Hetchy Power	2023	2022
Bonds issued with revenue pledge	\$ 182,271	182,271
Principal and interest remaining due at the end of the year	281,546	290,581
Principal and interest paid during the year*	3,905	3,928
Net revenues for the year ended June 30	52,195	54,310
Funds available for debt service	162,399	98,625

*Per Indenture, debt service for coverage is calculated using the amount of principal and interest paid during the year for the 2015 Series AB and 2021 Series AB power revenue bonds net of capitalized interest if any, which have a senior lien on Power Enterprise revenues; principal and interest paid during the year for the 2015 Series AB and 2021 Series AB power revenue bonds was \$2,567, net of capitalized interest.

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(9) Leases

Hetch Hetchy has entered into long-term leases for office space and other equipment. The terms and conditions for these leases varies, which ranges between 1 to 75 years.

A summary of intangible right-to-use leases during the years ended June 30, 2023 and 2022 are as follows:

	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasurements</u>	<u>2023</u>
Hetch Hetchy					
Right-to-use assets: Building/facility	\$ 1,068	—	(862)	236	442
Total lease assets	<u>1,068</u>	<u>—</u>	<u>(862)</u>	<u>236</u>	<u>442</u>
Less accumulated amortization for:					
Building/facility	(704)	(277)	862	—	(119)
Total accumulated amortization	<u>(704)</u>	<u>(277)</u>	<u>862</u>	<u>—</u>	<u>(119)</u>
Total lease assets, net	\$ <u>364</u>	<u>(277)</u>	<u>—</u>	<u>236</u>	<u>323</u>
Hetch Water					
Right-to-use assets: Building/facility	\$ 67	—	26	105	198
Total lease assets	<u>67</u>	<u>—</u>	<u>26</u>	<u>105</u>	<u>198</u>
Less accumulated amortization for:					
Building/facility	(6)	(21)	(26)	—	(53)
Total accumulated amortization	<u>(6)</u>	<u>(21)</u>	<u>(26)</u>	<u>—</u>	<u>(53)</u>
Total lease assets, net	\$ <u>61</u>	<u>(21)</u>	<u>—</u>	<u>105</u>	<u>145</u>
Hetch Power					
Right-to-use assets: Building/facility	\$ 81	—	32	131	244
Total lease assets	<u>81</u>	<u>—</u>	<u>32</u>	<u>131</u>	<u>244</u>
Less accumulated amortization for:					
Building/facility	(8)	(26)	(32)	—	(66)
Total accumulated amortization	<u>(8)</u>	<u>(26)</u>	<u>(32)</u>	<u>—</u>	<u>(66)</u>
Total lease assets, net	\$ <u>73</u>	<u>(26)</u>	<u>—</u>	<u>131</u>	<u>178</u>
CleanPowerSF					
Right-to-use assets: Building/facility	\$ 920	—	(920)	—	—
Total lease assets	<u>920</u>	<u>—</u>	<u>(920)</u>	<u>—</u>	<u>—</u>
Less accumulated amortization for:					
Building/facility	(690)	(230)	920	—	—
Total accumulated amortization	<u>(690)</u>	<u>(230)</u>	<u>920</u>	<u>—</u>	<u>—</u>
Total lease assets, net	\$ <u>230</u>	<u>(230)</u>	<u>—</u>	<u>—</u>	<u>—</u>

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasurements</u>	<u>2022</u>
Hetch Hetchy					
Right-to-use assets: Building/facility	\$ 1,126	—	(58)	—	1,068
Total lease assets	<u>1,126</u>	<u>—</u>	<u>(58)</u>	<u>—</u>	<u>1,068</u>
Less accumulated amortization for:					
Building/facility	<u>(387)</u>	<u>(375)</u>	<u>58</u>	<u>—</u>	<u>(704)</u>
Total accumulated amortization	<u>(387)</u>	<u>(375)</u>	<u>58</u>	<u>—</u>	<u>(704)</u>
Total lease assets, net	<u>\$ 739</u>	<u>(375)</u>	<u>—</u>	<u>—</u>	<u>364</u>
Hetch Water					
Right-to-use assets: Building/facility	\$ 93	—	(26)	—	67
Total lease assets	<u>93</u>	<u>—</u>	<u>(26)</u>	<u>—</u>	<u>67</u>
Less accumulated amortization for:					
Building/facility	<u>(19)</u>	<u>(13)</u>	<u>26</u>	<u>—</u>	<u>(6)</u>
Total accumulated amortization	<u>(19)</u>	<u>(13)</u>	<u>26</u>	<u>—</u>	<u>(6)</u>
Total lease assets, net	<u>\$ 74</u>	<u>(13)</u>	<u>—</u>	<u>—</u>	<u>61</u>
Hetch Power					
Right-to-use assets: Building/facility	\$ 113	—	(32)	—	81
Total lease assets	<u>113</u>	<u>—</u>	<u>(32)</u>	<u>—</u>	<u>81</u>
Less accumulated amortization for:					
Building/facility	<u>(23)</u>	<u>(17)</u>	<u>32</u>	<u>—</u>	<u>(8)</u>
Total accumulated amortization	<u>(23)</u>	<u>(17)</u>	<u>32</u>	<u>—</u>	<u>(8)</u>
Total lease assets, net	<u>\$ 90</u>	<u>(17)</u>	<u>—</u>	<u>—</u>	<u>73</u>
CleanPowerSF					
Right-to-use assets: Building/facility	\$ 920	—	—	—	920
Total lease assets	<u>920</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>920</u>
Less accumulated amortization for:					
Building/facility	<u>(345)</u>	<u>(345)</u>	<u>—</u>	<u>—</u>	<u>(690)</u>
Total accumulated amortization	<u>(345)</u>	<u>(345)</u>	<u>—</u>	<u>—</u>	<u>(690)</u>
Total lease assets, net	<u>\$ 575</u>	<u>(345)</u>	<u>—</u>	<u>—</u>	<u>230</u>

A summary of changes in the related lease liabilities during the years ended June 30, 2023 and 2022 are as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>End of year</u>	<u>Due within one year</u>
Hetch Hetchy						
2023	\$ 369	—	236	(298)	307	35
2022	749	—	—	(380)	369	238
Hetchy Water						
2023	\$ 62	—	105	(29)	138	16
2022	78	—	—	(16)	62	3
Hetchy Power						
2023	\$ 75	—	131	(37)	169	19
2022	94	—	—	(19)	75	3
CleanPowerSF						
2023	\$ 232	—	—	(232)	—	—
2022	577	—	—	(345)	232	232

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

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Future annual lease payments as of the years ended June 30, 2023 and 2022 are as follows:

Hetchy Water

Fiscal years ending June 30:	Principal	Interest	Total
2024	\$ 16	2	18
2025	16	2	18
2026	16	2	18
2027	16	2	18
2028	17	1	18
2029-2033	30	4	34
2034-2038	19	2	21
2039-2042	8	—	8
	<u>138</u>	<u>15</u>	<u>153</u>
Less: Current portion	(16)		
Long-term portion as of June 30, 2023	\$ <u>122</u>		

Hetchy Power

Fiscal years ending June 30:	Principal	Interest	Total
2024	\$ 19	3	22
2025	19	3	22
2026	20	2	22
2027	20	2	22
2028	20	2	22
2029-2033	38	5	43
2034-2038	23	2	25
2039-2042	10	—	10
	<u>169</u>	<u>19</u>	<u>188</u>
Less: Current portion	(19)		
Long-term portion as of June 30, 2023	\$ <u>150</u>		

Hetchy Water

Fiscal years ending June 30:	Principal	Interest	Total
2023*	\$ 3	1	4
2024	3	1	4
2025	3	1	4
2026	3	1	4
2027	3	1	4
2028-2032	17	4	21
2033-2037	18	3	21
2038-2042	12	1	13
	<u>62</u>	<u>13</u>	<u>75</u>
Less: Current portion	(3)		
Long-term portion as of June 30, 2022	\$ <u>59</u>		

* Excluded \$28 payment from remeasurements due to lease renewal.

Hetchy Power

Fiscal years ending June 30:	Principal	Interest	Total
2023*	\$ 3	2	5
2024	4	2	6
2025	4	1	5
2026	4	1	5
2027	4	1	5
2028-2032	20	5	25
2033-2037	23	3	26
2038-2042	13	1	14
	<u>75</u>	<u>16</u>	<u>91</u>
Less: Current portion	(3)		
Long-term portion as of June 30, 2022	\$ <u>72</u>		

* Excluded \$34 payment from remeasurements due to lease renewal.

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CleanPowerSF

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 232	1	233
Less: Current portion	<u>(232)</u>		
Long-term portion as of June 30, 2022	<u>\$ —</u>		

Variable Lease Payments – Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as lease expenses in the period in which the obligation for those payments is incurred.

Certain equipment or facility rental leases require Hetch Hetchy to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor; these amounts are generally determined annually. During the year ended June 30, 2023, the amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were \$160 for CleanPowerSF and \$0 for Hetchy Water and Hetchy Power. During the year ended June 30, 2022, the amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were \$45 for Hetch Hetchy, of which \$1 for Hetchy Water, \$1 for Hetchy Power and \$43 for CleanPowerSF.

(10) Subscription-Based Information Technology Arrangements (SBITAs)

Hetch Hetchy has noncancellable subscription arrangements (similar to a lease) for the right to use various SBITAs. The terms and conditions for these subscriptions varies, which ranges between 1 to 5 years.

A summary of intangible right-to-use subscription IT assets during the years ended June 30, 2023 and 2022 are as follows:

	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasurements</u>	<u>2023</u>
Hetch Hetchy					
Subscription assets	\$ 998	—	—	—	998
Less accumulated amortization	<u>(357)</u>	<u>(360)</u>	<u>—</u>	<u>—</u>	<u>(717)</u>
Total subscription assets, net	<u>\$ 641</u>	<u>(360)</u>	<u>—</u>	<u>—</u>	<u>281</u>
Hetch Water					
Subscription assets	\$ 490	—	—	—	490
Less accumulated amortization	<u>(176)</u>	<u>(177)</u>	<u>—</u>	<u>—</u>	<u>(353)</u>
Total subscription assets, net	<u>\$ 314</u>	<u>(177)</u>	<u>—</u>	<u>—</u>	<u>137</u>
Hetch Power					
Subscription assets	\$ 397	—	—	—	397
Less accumulated amortization	<u>(141)</u>	<u>(142)</u>	<u>—</u>	<u>—</u>	<u>(283)</u>
Total subscription assets, net	<u>\$ 256</u>	<u>(142)</u>	<u>—</u>	<u>—</u>	<u>114</u>
CleanPowerSF					
Subscription assets	\$ 111	—	—	—	111
Less accumulated amortization	<u>(40)</u>	<u>(41)</u>	<u>—</u>	<u>—</u>	<u>(81)</u>
Total subscription assets, net	<u>\$ 71</u>	<u>(41)</u>	<u>—</u>	<u>—</u>	<u>30</u>

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	2021	Increases	Decreases	Remeasurements	2022*
Hetch Hetchy					
Subscription assets	\$ 954	44	—	—	998
Less accumulated amortization	—	(357)	—	—	(357)
Total subscription assets, net	<u>\$ 954</u>	<u>(313)</u>	<u>—</u>	<u>—</u>	<u>641</u>
Hetch Water					
Subscription assets	\$ 468	22	—	—	490
Less accumulated amortization	—	(176)	—	—	(176)
Total subscription assets, net	<u>\$ 468</u>	<u>(154)</u>	<u>—</u>	<u>—</u>	<u>314</u>
Hetch Power					
Subscription assets	\$ 380	17	—	—	397
Less accumulated amortization	—	(141)	—	—	(141)
Total subscription assets, net	<u>\$ 380</u>	<u>(124)</u>	<u>—</u>	<u>—</u>	<u>256</u>
CleanPowerSF					
Subscription assets	\$ 106	5	—	—	111
Less accumulated amortization	—	(40)	—	—	(40)
Total subscription assets, net	<u>\$ 106</u>	<u>(35)</u>	<u>—</u>	<u>—</u>	<u>71</u>

*Restated per GASB Statement No. 96, SBITAs.

A summary of changes in the related subscription liabilities during the years ended June 30, 2023 and 2022 are as follows: 51

Fiscal years	Beginning of year	Additions	Remeasurements	Deductions	End of year	Due within one year
Hetch Hetchy						
2023	\$ 632	—	—	(346)	286	163
2022*	954	—	—	(322)	632	346
Hetchy Water						
2023	\$ 309	—	—	(170)	139	80
2022*	468	—	—	(159)	309	170
Hetchy Power						
2023	\$ 253	—	—	(137)	116	65
2022*	380	—	—	(127)	253	137
CleanPowerSF						
2023	\$ 70	—	—	(39)	31	18
2022*	106	—	—	(36)	70	39

*Restated per GASB Statement No. 96, SBITAs.

Future annual subscription payments as of the years ended June 30, 2023 and 2022 are as follows:

Hetchy Water			
Fiscal years ending June 30:	Principal	Interest	Total
2024	\$ 80	2	82
2025	30	2	32
2026	29	1	30
	<u>139</u>	<u>5</u>	<u>144</u>
Less: Current portion	(80)		
Long-term portion as of June 30, 2023	<u>\$ 59</u>		

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Hetchy Power

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 65	1	66
2025	25	1	26
2026	26	—	26
	<u>116</u>	<u>2</u>	<u>118</u>
Less: Current portion	(65)		
Long-term portion as of June 30, 2023	<u>\$ 51</u>		

Clean Power

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 18	—	18
2025	6	—	6
2026	7	—	7
	<u>31</u>	<u>—</u>	<u>31</u>
Less: Current portion	(18)		
Long-term portion as of June 30, 2023	<u>\$ 13</u>		

Hetchy Water

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 170	3	173
2024	80	2	82
2025	30	1	31
2026	29	1	30
	<u>309</u>	<u>7</u>	<u>316</u>
Less: Current portion	(170)		
Long-term portion as of June 30, 2022	<u>\$ 139</u>		

Hetchy Power

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 137	2	139
2024	65	1	66
2025	25	1	26
2026	26	—	26
	<u>253</u>	<u>4</u>	<u>257</u>
Less: Current portion	(137)		
Long-term portion as of June 30, 2022	<u>\$ 116</u>		

Clean Power

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 39	—	39
2024	18	—	18
2025	6	—	6
2026	7	—	7
	<u>70</u>	<u>—</u>	<u>70</u>
Less: Current portion	(39)		
Long-term portion as of June 30, 2022	<u>\$ 31</u>		

As of June 30, 2023 and 2022, no variable subscription payments were noted for Hetch Hetchy's subscription IT arrangements.

(11) Other Non-Operating Revenues – Transbay Cable Construction and Licensing Fees

In 2007, the Board of Supervisors adopted the resolution to enter into two non-exclusive licenses with the Transbay Cable LLC (the Licensee) for the Transbay Cable Project. The Licensee proposed to install, operate, and maintain approximately 53 miles of high-voltage direct current transmission cable

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running from the City of Pittsburg to the City. The first license was a Construction License to install a 400 MW high-voltage transmission line, with a four-year term. The Licensee paid Hetchy Power \$3,500 in Renewable Energy, Transmission and Grid Reliability. The Construction licensing fees were fully spent as of 2020.

The second license is an operational license for operation of the transmission line with 25-year term and an option to renew for 10 years. The project came on line November 29, 2010 and cumulative revenues of \$22,708 were recorded. Per agreement, the SFPUC shall consider specifically renewable energy, conservation, and environmental health programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. The San Francisco Electricity Reliability Payment shall also be partly used for green jobs training and placement programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. As of June 30, 2023, cumulative expenses of \$12,487 have been incurred, with \$1,351 and \$1,525 in fiscal years 2023 and 2022, respectively.

(12) Employee Benefits

(a) *Pension Plan*

Retirement Plan – Hetch Hetchy participates in a cost-sharing multiple-employer defined benefit pension Plan (SFERS Plan). The SFERS Plan is administered by the San Francisco City and County Employees’ Retirement System (SFERS). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS Plan, and additions to/deductions from the SFERS Plan’s fiduciary net position have been determined on the same basis as they are reported by the SFERS Plan. Contributions are recognized in the period in which they are due pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the SFERS Plan reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

	Fiscal Year 2023	Fiscal Year 2022
Valuation Date (VD)	June 30, 2021 updated to June 30, 2022	June 30, 2020 updated to June 30, 2021
Measurement Date (MD)	June 30, 2022	June 30, 2021
Measurement Period (MP)	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021

SFERS Plan – The City is an employer of the plan with a proportionate share of 94.87% as of June 30, 2022 (measurement date), 0.23% increased from prior year, and 94.64% as of June 30, 2021 (measurement date). Hetch Hetchy’s allocation percentage was determined based on its employer contributions divided by the City’s total employer contributions for fiscal years 2022 and 2021. Hetch Hetchy’s net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. Hetch Hetchy’s allocation of the City’s proportionate share was 1.31%, of which 0.55% for Hetchy Water, 0.68% for Hetchy Power, and 0.08% for CleanPowerSF as of June 30, 2022 (measurement date). Hetch Hetchy’s allocation of the City’s proportionate share was 1.33%, of which 0.57% for Hetchy Water, 0.69% for Hetchy Power, and 0.07% for CleanPowerSF as of June 30, 2021 (measurement date).

SFERS Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides

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annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website or by writing to the San Francisco Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

SFERS Benefits – The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual COLA after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The four main categories of Plan members are:

- a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- b) Sheriff's Department and Miscellaneous Safety members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
- c) Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- d) Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees' Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis

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and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy

SFERS Plan – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 12.0% and 7.5% to 13.0% as a percentage of gross covered salary in fiscal years 2023 and 2022. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2021 actuarial report, the required employer contribution rate for fiscal year 2023 range from 17.85% to 21.35%. Based on the July 1, 2020 actuarial report, the required employer contribution rate for fiscal year 2022 range from 19.91% to 24.41%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2022 and 2021 (measurement years) were \$729,578 and \$791,736, respectively. Hetch Hetchy's allocation of employer contributions were \$9,766, of which \$4,149 for Hetchy Water, \$5,071 for Hetchy Power, and \$546 for CleanPowerSF for fiscal year 2022 (measurement period). Hetch Hetchy's allocation of employer contributions were \$9,644, of which \$4,130 for Hetchy Water, \$5,048 for Hetchy Power, and \$466 for CleanPowerSF for fiscal year 2021 (measurement period).

Pension (Assets)/Liabilities, Pension Expenses, and Deferred Outflows and Inflows of Resources Related to Pensions

Fiscal Year 2023

As of June 30, 2023, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan of \$2,552,996. The City's NPL/net pension assets (NPA) for each of its cost-sharing plans is measured as a proportionate share of the plans' NPL/(NPA). The net pension liability of the SFERS Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2023 was \$33,468, of which \$14,105 for Hetchy Water, \$17,239 for Hetchy Power, and \$2,124 for CleanPowerSF.

For the year ended June 30, 2023, the City's recognized pension expense was \$1,771, which includes Retirement Benefit Plan pension expense of \$14,967. Hetch Hetchy's allocation of pension (benefit) including amortization of deferred outflows/inflows related pension items were (\$2,192), of which (\$955) for Hetchy Water, (\$1,168) for Hetchy Power, and (\$69) for CleanPowerSF. Pension (benefit) increased from the prior year, largely due to the amortization of deferrals.

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At June 30, 2023, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following source:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Fiscal Year 2023								
Pension contributions subsequent to the measurement date	\$ 3,525	4,308	531	8,364	-	-	-	-
Differences between expected and actual experience	1,288	1,574	194	3,056	-	-	-	-
Changes in assumptions	3,665	4,479	552	8,696	1,100	1,344	166	2,610
Net difference between projected and actual earnings on pension plan investments	-	-	-	-	1,753	2,143	264	4,160
Change in employer's proportion	380	465	15	860	1,289	1,575	866	3,730
Total	\$ 8,858	10,826	1,292	20,976	4,142	5,062	1,296	10,500

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2024	\$ (1,163)	(1,422)	(509)	(3,094)
2025	(1,366)	(1,669)	(426)	(3,461)
2026	(2,405)	(2,939)	(477)	(5,821)
2027	6,125	7,486	877	14,488
	\$ 1,191	1,456	(535)	2,112

Fiscal Year 2022

As of June 30, 2022, the City reported net pension assets (NPA) for its proportionate share of the net pension asset of the SFERS Plan of \$2,446,564. The City's NPL/(NPA) for each of its cost-sharing plans is measured as a proportionate share of the plans' NPL/(NPA). The net pension asset of the SFERS Plan is measured as of June 30, 2021 (measurement date), and the total pension (asset)/liability for the SFERS Plan used to calculate the net pension (asset)/liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The City's proportion of the net pension (asset)/liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension (asset)/liability for the SFERS Plan as of June 30, 2022 was (\$32,749), of which (\$13,912) for Hetchy Water, (\$17,004) for Hetchy Power, and (\$1,833) for CleanPowerSF.

For the year ended June 30, 2022, the City's recognized pension (benefit) was (\$922,979), which includes Retirement Benefit Plan pension expense of \$28,735. Hetch Hetchy's allocation of pension (benefit) including amortization of deferred outflows/inflows related pension items were (\$4,058), of which (\$1,816) for Hetchy Water, (\$2,220) for Hetchy Power, and (\$22) for CleanPowerSF. Pension (benefit) increased from the prior year, largely due to the amortization of deferrals.

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At June 30, 2022, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following source:

Fiscal Year 2022	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Pension contributions subsequent to the measurement date	\$ 4,149	5,071	546	9,766	-	-	-	-
Differences between expected and actual experience	1,278	1,561	168	3,007	45	56	6	107
Changes in assumptions	941	1,151	124	2,216	2,443	2,985	322	5,750
Net difference between projected and actual earnings on pension plan investments	-	-	-	-	30,223	36,939	3,982	71,144
Change in employer's proportion	328	400	14	742	1,766	2,158	1,104	5,028
Total	\$ 6,696	8,183	852	15,731	34,477	42,138	5,414	82,029

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2023	\$ (8,033)	(9,817)	(1,407)	(19,257)
2024	(7,470)	(9,130)	(1,278)	(17,878)
2025	(7,679)	(9,386)	(1,194)	(18,259)
2026	(8,748)	(10,693)	(1,229)	(20,670)
	\$ (31,930)	(39,026)	(5,108)	(76,064)

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Actuarial Assumptions

Fiscal Year 2023

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for SFERS Plan as of June 30, 2022 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2021 actuarial valuation. Refer to the July 1, 2021 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

<u>Key Actuarial Assumptions</u>	<u>SFERS Plan</u>				
Valuation Date	June 30, 2021 updated to June 30, 2022				
Measurement Date	June 30, 2022				
Actuarial Cost Method	Entry-Age Normal Cost				
Expected Rate of Return	7.20% net of investment expenses				
Municipal Bond Yield	2.16% as of June 30, 2021				
	3.54% as of June 30, 2022				
	Bond Buyer 20-Bond GO Index, June 24, 2021 and June 30, 2022				
Inflation	2.50%				
Projected Salary Increases	3.25% plus merit component based employee classification and years of service				
Discount Rate	7.40% as of June 30, 2021				
	7.20% as of June 30, 2022				
Administrative Expenses	0.60% of payroll as of June 30, 2021				
	0.60% of payroll as of June 30, 2022				
		Old Miscellaneous and	Old Police & Fire,	Old Police & Fire,	Old Police & Fire,
		<u>All New Plans</u>	<u>pre 7/1/75</u>	<u>Charters A8.595</u>	<u>Charters A8.559</u>
Basic COLA				<u>and A8.596</u>	<u>and A8.585</u>
	June 30, 2021	2.00%	1.90%	2.50%	3.60%
	June 30, 2022	2.00%	1.90%	2.50%	3.60%

Mortality rates for health Miscellaneous members were based upon adjusted PubG-2010 Employee and Retiree tables for non-annuitants and retirees, respectively. Mortality rates were then projected generationally from the base year using the MP-2019 projection scale.

The actuarial assumptions used at the June 30, 2022 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2021.

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Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for SFERS Plan as of June 30, 2021 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2020 actuarial valuation. Refer to the July 1, 2020 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

<u>Key Actuarial Assumptions</u>	<u>SFERS Plan</u>				
	Valuation Date	June 30, 2020 updated to June 30, 2021			
Measurement Date	June 30, 2021				
Actuarial Cost Method	Entry-Age Normal Cost				
Expected Rate of Return	7.40% net of investment expenses				
Municipal Bond Yield	2.21% as of June 30, 2020				
	2.16% as of June 30, 2021				
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021				
Inflation	2.50%				
Projected Salary Increases	3.25% plus merit component based on employee classification and years of service				
Discount Rate	7.40% as of June 30, 2020				
	7.40% as of June 30, 2021				
Administrative Expenses	0.60% of payroll as of June 30, 2020				
	0.60% of payroll as of June 30, 2021				
Basic COLA		Old Miscellaneous and	Old Police & Fire,	Old Police & Fire,	Old Police & Fire,
		All New Plans	pre 7/1/75	Charters A8.595	Charters A8.559
				and A8.596	and A8.585
	June 30, 2020	2.00%	2.50%	3.10%	4.20%
	June 30, 2021	2.00%	1.90%	2.50%	3.60%

Mortality rates for health Miscellaneous members were based upon adjusted PubG-2010 Employee and Retiree tables for non-annuitants and retirees, respectively. Mortality rates were then projected generationally from the base year using the MP-2019 projection scale.

The actuarial assumptions used at the June 30, 2021 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2020.

Discount Rate

Fiscal Year 2023

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.20% as of June 30, 2022 (measurement date) and 7.40% as of June 30, 2021 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2022 was 7.20%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2021 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

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The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 1997 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2022 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2022. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

<u>Fiscal years</u>	<u>96 - Prop C</u>	<u>Before 11/6/96 or After Prop C</u>
2024	0.75 %	0.70 %
2025	0.75	0.60
2026	0.75	0.60
2027+	0.75	0.50

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.20% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.54% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2022 is 7.20%.

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The long-term expected rate of return on pension plan investments was 7.20%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	37.0 %	4.8 %
Private Equity	23.0	7.9
Private Credit	10.0	5.8
Real Assets	10.0	4.7
Hedge Funds/Absolute Return	10.0	3.4
Treasuries	8.0	0.6
Liquid Credit	5.0	3.5
Leverage	(3.0)	0.6
Total	100.0	

Fiscal Year 2022

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of June 30, 2021 (measurement date) and June 30, 2020 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2021 was 7.40%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2020 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

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While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 1997 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2021 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2021.

The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

<u>Fiscal years</u>	<u>96 - Prop C</u>	<u>Before 11/6/96 or After Prop C</u>
2023	0.75 %	0.70 %
2025	0.75	0.70
2027	0.75	0.60
2029	0.75	0.60
2031	0.75	0.60
2033+	0.75	0.50

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.16% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2021 is 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	37.0 %	4.2 %
Private Equity	23.0	7.9
Private Credit	10.0	5.1
Real Assets	10.0	5.1
Hedge Funds/Absolute Returns	10.0	2.9
Treasuries	8.0	0.0
Liquid Credit	5.0	2.3
Leverage	(3.0)	0.1
Total	100.0	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Hetch Hetchy's allocation of the employer's proportionate share of the net pension liability/(asset) for the SFERS Plan, calculated using the discount rate, as well as what Hetch Hetchy's allocation of the employer's proportionate share of the net pension (asset)/liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Fiscal Year 2023	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>Total</u>
1% Decrease Share of NPL @ 6.20%	\$ 38,624	47,207	5,817	91,648
Share of NPL @ 7.20%	14,105	17,239	2,124	33,468
1% Increase Share of NPA @ 8.20%	(6,108)	(7,466)	(920)	(14,494)
 Fiscal Year 2022				
1% Decrease Share of NPL @ 6.40%	\$ 9,272	11,333	1,221	21,826
Share of NPA @ 7.40%	(13,912)	(17,004)	(1,833)	(32,749)
1% Increase Share of NPA @ 8.40%	(33,053)	(40,398)	(4,354)	(77,805)

(b) *Other Post-Employment Benefits*

Hetch Hetchy participates in a single-employer defined benefit other post-employment plan (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System. It provides post-employment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other post-employment benefit plan.

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GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Health Service System Retiree Plan - Single-Employer		
	Fiscal Year 2023	Fiscal Year 2022
Valuation Date (VD)	June 30, 2022	June 30, 2020 updated to June 30, 2021
Measurement Date (MD)	June 30, 2022	June 30, 2021
Measurement Period (MP)	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021

Hetch Hetchy's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the years ended June 30, 2022 and June 30, 2021. Hetch Hetchy's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on its allocated percentage. Hetch Hetchy's proportionate share of the City's OPEB elements was 0.98%, of which 0.40% for Hetchy Water, 0.47% for Hetchy Power, and 0.11% for CleanPowerSF as of June 30, 2022 (measurement date). Hetch Hetchy's proportionate share of the City's OPEB elements was 0.92%, of which 0.39% for Hetchy Water, 0.47% for Hetchy Power, and 0.06% for CleanPowerSF as of June 30, 2021 (measurement date).

Benefits

Permanent full-time and elected employees are eligible to retire and receive post-retirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco's Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service ¹ Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement ²		Any age with 10 years of credited service
Terminated Vested		5 years of credited service at separation

¹ Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012 under Charter Section 8.603.

² No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses/domestic partners of those killed in the line of duty.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical: PPO – Blue Shield (self-insured) and UHC Medicare Advantage (fully-insured)
HMO – Kaiser (fully-insured) and Blue Shield (flex-funded) and Health Net (flex-funded)

Dental: Delta Dental, DeltaCare USA and United Healthcare Dental

Vision: Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

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Contributions

Benefits provided under the Plan are currently paid through “pay-as-you-go” funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City’s GASB Actuary has determined that the City’s portion of the Trust Fund is fully funded. At that time, the City’s 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the Trust Fund. Beginning on July 1st of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1st of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City’s Actuary has determined that the City’s portion of the Trust Fund is fully funded, the City’s 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation. Additional or existing contribution requirements may be established or modified by amendment to the City’s Charter.

Fiscal Year 2023

For the fiscal year ended June 30, 2023, the City’s funding was based on “pay as you go” plus a contribution of \$45,241 to the Retiree Healthcare Trust Fund. The “pay as you go” portion paid by the City was \$215,408 for a total contribution of \$260,649 for the fiscal year ended June 30, 2023. Hetch Hetchy’s proportionate share of the City’s contributions for fiscal year 2023 were \$2,588: \$1,038 for Hetchy Water, \$1,268 for Hetchy Power, and \$282 for CleanPowerSF and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

Fiscal Year 2022

For the fiscal year ended June 30, 2022, the City’s funding was based on “pay as you go” plus a contribution of \$41,841 to the Retiree Healthcare Trust Fund. The “pay as you go” portion paid by the City was \$211,025 for a total contribution of \$252,866 for the fiscal year ended June 30, 2022. Hetch Hetchy’s proportionate share of the City’s contributions for fiscal year 2022 were \$2,322: \$975 for Hetchy Water, \$1,192 for Hetchy Power, and \$155 for CleanPowerSF and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

Fiscal Year 2023

As of June 30, 2023, the City reported net OPEB liabilities related to the Plan of \$3,746,270. Hetch Hetchy’s proportionate share of the City’s net OPEB liability as of June 30, 2023 was \$37,180: \$14,907 for Hetchy Water, \$18,220 for Hetchy Power, and \$4,053 for CleanPowerSF.

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For the year ended June 30, 2023, the City's recognized OPEB expense was \$256,974. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's OPEB expense was \$7,804: \$2,078 for Hetchy Water and \$2,540 for Hetchy Power, and \$3,186 for CleanPowerSF.

As of June 30, 2023, Hetch Hetchy reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	\$ 1,038	1,268	282	2,588	-	-	-	-
Differences between expected and actual experience	331	404	90	825	2,482	3,033	675	6,190
Changes in assumptions	636	778	173	1,587	-	-	-	-
Net difference between projected and actual earnings on plan investments	240	293	65	598	-	-	-	-
Change in proportion	1,003	1,226	399	2,628	602	736	2,247	3,585
Total	<u>\$ 3,248</u>	<u>3,969</u>	<u>1,009</u>	<u>8,226</u>	<u>3,084</u>	<u>3,769</u>	<u>2,922</u>	<u>9,775</u>

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

Fiscal years	Deferred Outflows/(Inflows) of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2024	\$ (193)	(236)	(527)	(956)
2025	(189)	(231)	(526)	(946)
2026	(39)	(48)	(485)	(572)
2027	(130)	(159)	(384)	(673)
Thereafter	(323)	(394)	(273)	(990)
Total	<u>\$ (874)</u>	<u>(1,068)</u>	<u>(2,195)</u>	<u>(4,137)</u>

Fiscal Year 2022

As of June 30, 2022, the City reported net OPEB liabilities related to the Plan of \$3,691,122. Hetch Hetchy's proportionate share of the City's net OPEB liability as of June 30, 2022 was \$33,909: \$14,240 for Hetchy Water, \$17,405 for Hetchy Power, and \$2,264 for CleanPowerSF. For the year ended June 30, 2022, the City's recognized OPEB expense was \$272,001. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's OPEB expense was \$3,002: \$1,874 for Hetchy Water and \$2,291 for Hetchy Power, offset by a decrease of \$1,163 expense for CleanPowerSF.

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Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

As of June 30, 2022, Hetch Hetchy reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	\$ 975	1,192	155	2,322	-	-	-	-
Differences between expected and actual experience	428	523	68	1,019	2,193	2,680	348	5,221
Changes in assumptions	602	735	96	1,433	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	-	-	-	269	329	43	641
Change in proportion	1,267	1,549	479	3,295	272	333	1,203	1,808
Total	\$ 3,272	3,999	798	8,069	2,734	3,342	1,594	7,670

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

Fiscal years	Deferred Outflows/(Inflows) of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2023	\$ (105)	(128)	(264)	(497)
2024	(106)	(130)	(264)	(500)
2025	(103)	(125)	(264)	(492)
2026	46	57	(167)	(64)
2027	(43)	(53)	(59)	(155)
Thereafter	(126)	(156)	67	(215)
Total	\$ (437)	(535)	(951)	(1,923)

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2023

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2022 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.74% trending down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.74% trending down to ultimate rate of 3.94% in 2076 10-County average trend starts at 5.00% trending down to ultimate rate of 3.94% in 2076 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuityants

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	0.834	0.866
Safety	PubS-2010 Employee	1.011	0.979

Healthy Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubS-2010 Employee	0.947	1.044

Disabled Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.045	1.003
Safety	PubS-2010 Employee	0.916	0.995

Beneficiaries

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

The mortality rates in the base tables are projected generationally from the base year using the MP-2019 projection scale.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2021 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2020, updated to June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 6.74% trending down to ultimate rate of 4.04% in 2075 Medicare trend starts at 7.24% trending down to ultimate rate of 4.04% in 2075 10-County average trend starts at 5.50% trending down to ultimate rate of 4.04% in 2075 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	0.834	0.866
Safety	PubS-2010 Employee	1.011	0.979

Healthy Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubS-2010 Employee	0.947	1.044

Disabled Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.045	1.003
Safety	PubS-2010 Employee	0.916	0.995

Beneficiaries

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

The mortality rates in the base tables are projected generationally from the base year using the MP-2019 projection scale.

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Notes to Financial Statements

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(Dollars in thousands, unless otherwise stated)

Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what its allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate as of June 30, 2023 and June 30, 2022:

		<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>2023</u>
1% Decrease	\$	12,753	15,586	3,467	31,806
Healthcare Trend		14,907	18,220	4,053	37,180
1% Increase		17,579	21,486	4,779	43,844

		<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>2022</u>
1% Decrease	\$	12,121	14,814	1,927	28,862
Healthcare Trend		14,240	17,405	2,264	33,909
1% Increase		16,882	20,634	2,685	40,201

Discount Rate

Fiscal Year 2023

The discount rate used to measure the Total OPEB Liability as of June 30, 2022 was 7.00%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.00% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation.

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Notes to Financial Statements

June 30, 2023 and 2022

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Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0 %	6.8 %
U.S. Small Cap	3.0	7.4
Developed Market Equity (non-U.S.)	15.0	7.5
Emerging Market Equity	13.0	8.4
Credit		
Bank Loans	3.0	4.0
High Yield Bonds	3.0	4.4
Emerging Market Bonds	3.0	4.2
Rate Securities		
Investment Grade Bonds	9.0	2.4
Long-term Government Bonds	4.0	2.8
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0	1.9
Private Markets		
Private Equity	5.0	10.0
Core Private Real Estate	5.0	6.1
Risk Mitigating Strategies		
Global Macro	5.0	5.0
Total	100.0 %	

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what Hetch Hetchy's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

		Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease 6.00%	\$	17,355	21,211	4,718	43,284
Discount Rate 7.00%		14,907	18,220	4,053	37,180
1% Increase 8.00%		12,899	15,765	3,507	32,171

Fiscal Year 2022

The discount rate used to measure the Total OPEB Liability as of June 30, 2021 was 7.00%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.00% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation.

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Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0 %	8.2 %
U.S. Small Cap	3.0	9.5
Developed Market Equity (non-U.S.)	15.0	8.9
Emerging Market Equity	13.0	11.0
Credit		
Bank Loans	3.0	4.4
High Yield Bonds	3.0	4.4
Emerging Market Bonds	3.0	4.3
Rate Securities		
Investment Grade Bonds	9.0	1.9
Long-term Government Bonds	4.0	3.2
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0	1.5
Private Markets		
Private Equity	5.0	13.0
Core Private Real Estate	5.0	6.2
Risk Mitigating Strategies		
Global Macro	5.0	4.4
Total	100.0 %	

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what Hetch Hetchy's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease 6.00%	\$ 16,652	20,352	2,648	39,652
Discount Rate 7.00%	14,240	17,405	2,264	33,909
1% Increase 8.00%	12,271	14,997	1,951	29,219

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City's post-employment health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(13) Related Parties

(a) *Hetch Hetchy*

Various common costs incurred by the SFPUC are allocated among Hetch Hetchy, Water, and Wastewater Enterprises. The allocations are based on the SFPUC management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. For the years ended June 30, 2023 and 2022, the SFPUC allocated \$26,362 or 23.1% and \$22,221 or 20.7% respectively, in administrative costs including COVID-19 Project expenses, which is presented in the financial statements under various expense categories. These costs are then allocated to Hetchy Water, Hetchy Power, and CleanPowerSF in

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

the Hetch Hetchy financial statements, using the periodically reviewed department overhead allocation model.

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City's indirect cost allocation plan. Some City departments provide direct services such as engineering, purchasing, legal, data processing, telecommunication, and human resources to Hetch Hetchy and charge amounts designed to recover those departments' costs. These charges totaling approximately \$16,368 and \$13,003 for the years ended June 30, 2023 and 2022, respectively, have been included in services provided by other departments in the accompanying financial statements.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. Total payment under this agreement is \$6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2023, Hetch Hetchy's allocable shares of expenses and prepayment were \$17 and \$887, respectively, and as of June 30, 2022 were \$18 and \$904, respectively.

(b) ***Hetchy Water***

For the years ended June 30, 2023 and 2022, the SFPUC allocated \$11,778 or 10.3%, and \$10,886 or 10.2%, respectively, in administrative costs including COVID-19 Project expense to Hetchy Water.

The Water Enterprise purchases water from Hetchy Water. Included in the operating revenues are the water assessment fees of \$49,636 and \$45,815 for the years ended June 30, 2023 and 2022, respectively. The water assessment fees represent a recovery to fund upcountry, water-related costs that are not otherwise funded through Hetchy water-related revenue or Water revenue bonds.

Hetchy Water received \$20,000 and \$30,001 for the years ended June 30, 2023 and 2022, respectively, from the Water Enterprise to fund upcountry projects.

(c) ***Hetchy Power***

For the years ended June 30, 2023 and 2022, the SFPUC allocated \$9,452 or 8.3%, and \$8,820 or 8.2% respectively, in administrative costs including COVID-19 Project expense to Hetchy Power.

For the years ended June 30, 2023 and 2022, operating revenues in sales of power to departments within the City were \$121,046 and \$116,334, respectively.

The Water Enterprise also purchases electricity and gas from Hetchy Power. This amount totaled \$11,398 and \$11,394 for the years ended June 30, 2023 and 2022, respectively.

The Wastewater Enterprise purchases electricity and gas from Hetchy Power. This amount totaled \$14,876 and \$11,887 for the years ended June 30, 2023 and 2022, respectively.

The Low Carbon Fuel Standard (LCFS) program, overseen by the California Air Resources Board (CARB), seeks to reduce the carbon intensity of California's transportation fuel. Transportation

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Notes to Financial Statements

June 30, 2023 and 2022

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fuel suppliers can achieve this goal by either reducing the carbon intensity of their fuels or purchasing LCFS credits from other fuel suppliers that have a lower carbon intensity. In 2017, the San Francisco Municipal Transportation Agency (SFMTA) joined the LCFS program, signing up its transit fleet of electric buses, cable cars, and light rail vehicles and generating LCFS credits. Through a Memorandum of Understanding (MOU) with SFMTA, approved by the SFPUC Commission in Resolution 17-0199, net proceeds from the sale of LCFS credits would be shared 50/50 between SFMTA and Hetchy Power. In Ordinance 0199-19, the Board of Supervisors authorized Hetchy Power to establish the Low Carbon Fuel Standard Fund to account for the revenue and expenditure from the credit sales. The Ordinance also allowed Hetchy Power to sell LCFS credits on behalf of other City agencies. During the fiscal years ended June 30, 2023 and 2022, Hetchy Power received total payments of LCFS credits attributable to SFMTA of \$1,123 and \$2,367, respectively. Among these amounts, \$561 in fiscal year 2023 and \$1,184 in fiscal year 2022, respectively, were transferred to SFMTA, and the remaining portion was reported as other non-operating revenues on the Statements of Revenues, Expenses, and Change in Net Position.

In fiscal year 2023, municipal customers entering into an LCFS Partnership Agreement will pay for premium charges. The Port of San Francisco (Port) started earning its own LCFS credits on January 1, 2022, through the provision of shoreside power to docked ships. Hetchy Power has subsequently started selling the Port's LCFS credits in fiscal year 2023 and recognized \$32 revenues from credit sales. Total of \$210 was transferred to Port for fiscal year 2023.

Due from other City departments was \$11,486 and \$11,804 as of June 30, 2023 and 2022, respectively. Hetchy Power serves as the City's department for energy efficiency projects and maintains the Sustainable Energy Account (SEA) (formerly known as the Mayor's Energy Conservation Account) fund to sponsor and financially support such projects at various City departments. In this role, Hetchy Power may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2023 and 2022, projects completed or under way throughout the City amounted to \$3,544 and \$4,050, respectively and are recorded as due from other City Departments.

Hetch Hetchy funded a project for the Treasure Island Development Authority and recorded receivables in connection with an upgraded submarine power cable, and gas and electrical charges for the Treasure Island as due from other City departments. This amount totaled \$7,177 and \$6,666 for the years ended June 30, 2023 and 2022, respectively.

As of June 30, 2023 and 2022, Hetchy Power recorded receivables of \$518 and \$629, respectively, due from Wastewater Enterprise for its share of costs relating to SFPUC Headquarters Living Machine System. Details of due from other City departments are as follows:

	2023	2022
Treasure Island Development Authority	\$ 7,177	6,666
SEA-related project: Moscone Center	3,544	4,050
Wastewater - 525 Golden Gate Headquarters Project	518	629
San Francisco Recreation and Park	209	314
Department of Public Works	38	145
Total due from other City departments	11,486	11,804
Less: current portion	(1,134)	(867)
Long-term portion as of June 30, net	\$ 10,352	10,937

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Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

As of June 30, 2023, Hetchy Power had payables in the amount of \$1,946 for claim settlement reimbursement to SFMTA. As of June 30, 2022, Hetchy Power had payables in the amount of \$380, of which \$369 to the Port for Pier 70 Shoreside Power Project and \$11 to the Department of Public Works for painting of light poles.

(d) *CleanPowerSF*

For the years ended June 30, 2023 and 2022, the SFPUC allocated \$5,132 or 4.5%, and \$2,515 or 2.4%, respectively, in administrative costs to CleanPowerSF.

As of June 30, 2023, and 2022, operating revenue in sales of power to Hetchy Power were \$1,549 and \$2,332, respectively. Operating expenses in purchase of power from Hetchy Power were \$5,846 and \$1,589, respectively. Wholesale sales of energy, capacity and/or other electric power related products may be made between the CleanPowerSF and Hetchy Power, when available. CleanPowerSF and Hetchy Power transact for such products at prevailing market prices.

CleanPowerSF received program support services from Hetchy Power. This amount totaled \$2,850 and \$1,861 for the years ended June 30, 2023 and 2022, respectively.

(14) Risk Management

The Enterprise's Risk Management program includes both self-insured (i.e., self-retention) and insured exposures at risk. Risk assessments and purchasing of insurance coverage are collaboratively coordinated by SFPUC Enterprise Risk Management and the City's Office of Risk Management. With certain exceptions, the City and the Enterprise's general approach is to first evaluate the exposure at risk for self-insurance. Based on this analysis, internal mitigation strategies and financing through a self-retention mechanism are generally more economical, as the SFPUC in coordination with the City Attorney's Office administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go fund). When economically more viable or when required by debt financing covenants, the Enterprise obtains commercial insurance. At least annually, the City actuarially determines general liability and workers' compensation risk exposures. The Enterprise does not maintain commercial earthquake coverage, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the SFPUC Property Insurance Program. In the past three years, there was no settlements that exceeded insurance coverage.

<u>Risk</u>	<u>Coverage Approach</u>
(a) General Liability	Self-Insured
(b) Workers' Compensation	Self-Insured through Citywide Pool
(c) Property	Purchased Insurance and Self-Insured
(d) Public Officials Liability	Purchased Insurance
(e) Employment Practices Liability	Purchased Insurance
(f) Cyber Liability	Purchased Insurance
(g) Crime	Purchased Insurance
(h) Electronic Data Processing	Purchased Insurance and Self-Insured
(i) Surety Bonds	Purchased and Contractual Risk Transfer
(j) Errors and Omissions	Purchased and Contractual Risk Transfer
(k) Builders' Risk	Contractual Risk Transfer

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Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(a) General Liability

Through coordination with the Controller’s Office and City Attorney’s Office, the general liability risk exposure is actuarially determined and is addressed through pay-as-you-go funding as part of the budgetary process. Associated costs and estimates are recorded as expenses as required under GAAP for financial statement purposes for both the Enterprise and the City and County of San Francisco’s Annual Comprehensive Financial Report. The claim expense allocations are determined based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The changes for the general liability (damage claims) for the years ended June 30, 2023 and 2022 are as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Claims and changes in estimates</u>	<u>Claims paid</u>	<u>End of year</u>
Hetch Hetchy				
2023	\$ 1,682	12,497	(7,295)	6,884
2022	1,639	3,840	(3,797)	1,682
Hetchy Water				
2023	\$ 627	320	(247)	700
2022	525	253	(151)	627
Hetchy Power				
2023	\$ 1,023	10,439	(5,312)	6,150
2022	1,108	2,005	(2,090)	1,023
CleanPowerSF				
2023	\$ 32	1,738	(1,736)	34
2022	6	1,582	(1,556)	32

(b) Workers’ Compensation

The City actuarially determines and allocates workers’ compensation costs to the Enterprise according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the Enterprise’s payroll. The administration of workers’ compensation claims and payouts are handled by the Workers’ Compensation Division of the City’s Department of Human Resources. Statewide workers’ compensation reforms have resulted in budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate the growth of workers’ compensation costs. Programs include accident prevention, investigation, and duty modification for injured employees with medical restrictions so return to work can occur as soon as possible.

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Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

The changes for the workers' compensation liabilities for the years ended June 30, 2023 and 2022 are as follows:

Fiscal years	Beginning of year	Claims	Claims and changes in estimates	End of year
Hetch Hetchy				
2023	\$ 3,478	300	(321)	3,457
2022	3,238	555	(315)	3,478
Hetchy Water				
2023	\$ 1,228	76	(85)	1,219
2022	1,120	233	(125)	1,228
Hetchy Power				
2023	\$ 2,250	224	(236)	2,238
2022	2,118	322	(190)	2,250

*CleanPowerSF had no workers' compensation liabilities as of June 30, 2023 and 2022.

(c) ***Property***

The Enterprise's property risk management approach varies depending on whether the facility is currently under construction, the property is part of revenue-generating operations, the property is of high value, or is mission-critical in nature. During the course of construction, the Enterprise requires each contractor to provide its own insurance, while ensuring the full scope of work is covered with satisfactory levels to limit the Enterprise's risk exposure. Once construction is complete, the Enterprise performs an assessment to determine whether liability/loss coverage will be obtained through the commercial property policy or self-insurance. The majority of property scheduled in the insurance program is for (1) revenue generating facilities, (2) debt-financed facilities, (3) mandated coverage to meet statutory requirements for bonding of various public officials, or (4) high-value, mission-critical property or equipment.

(d) ***Public Officials Liability***

All Enterprise public officials with financial oversight responsibilities are provided coverage through a commercial Public Officials Liability Policy.

(e) ***Employment Practices Liability***

An Employment Practices Liability Policy is retained to protect against employment-related claims and liabilities.

(f) ***Cyber Liability***

A Cyber Liability Policy is retained to protect against cyber-related claims and liabilities.

(g) ***Crime***

The Enterprise also retains a Commercial Crime Policy, in lieu of bonding its employees, to provide coverage against liabilities or losses due to third-party crime or employee fraud.

(h) ***Electronic Data Processing***

The Electronic Data Processing policy protects selected high-value electronic property in case of damage or loss.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(i) ***Surety Bonds***

Bonds are required in most phases of the public utilities construction contracting process for such phases as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty.

(j) ***Errors and Omissions***

Errors and omissions, also known as Professional Liability, are commonly transferred through contract to the contracted professional, or retained through self insurance on a case-by-case basis depending on the size, complexity, or scope of construction or professional service contracts. Examples of such contracts are inclusive of services provided by engineers, architects, design professionals, and other licensed or certified professional service providers.

(k) ***Builders' Risk***

Builders' Risk policies of insurance are required to be provided by the contractor on all construction projects for the full value of construction.

(l) ***Energy Risk Management***

Similar to other electric utilities with a heavy reliance on hydroelectric generation, Hetch Hetchy is exposed to risks that could impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the Hetch Hetchy revenues can vary with watershed hydrology, unexpected generator outages, and market prices for energy. Given the inherent risk for all hydroelectric generation, several risk management interventions have been developed to mitigate exposure.

(m) ***Enterprise Risk Management***

The Power Enterprise adopted the ISO 31000 standard for Hetchy Power and the CleanPowerSF program as the framework for implementing Enterprise Risk Management (ERM). The Enterprise utilizes this framework to systematically and proactively identify and mitigate risks that threatens its business objectives. Since not all risks are insurable or transferable contractually, the ERM program provides an additional method to manage risks and protect the Enterprise's current and expanding business allowing for increased operational resiliency and the ability to capitalize on opportunities.

(15) Commitments and Litigation

(a) ***Commitments***

As of June 30, 2023 and 2022, Hetch Hetchy has outstanding commitments with third parties of \$136,322 and \$199,283, respectively, for various capital projects and other purchase agreements for materials and services.

Hetchy Water

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto Irrigation District (MID) and Turlock Irrigation District (TID) in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetchy Water's

HETCH HETCHY WATER AND POWER AND CLEANPOWER SF

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(Dollars in thousands, unless otherwise stated)

operating expenses. The payment amounts were \$5,329 and \$5,129 for fiscal years 2023 and 2022, respectively. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of \$1,400 is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52%, while the Districts are responsible for 48% of the costs.

Hetchy Power

Wholesale Distribution Tariff (WDT) and Key Operating Agreements for Grid Access

Upon expiration of the City's previous Interconnection Agreement with PG&E, the City began taking service in 2015 under the WDT for distribution service and under the CAISO Open-Access Transmission Tariff for transmission service. The FERC-regulated Wholesale Distribution Tariff is implemented by PG&E through the City specific Service Agreements and Interconnection Agreements. The terms of these agreements have been in contention since the effective date. The City continues to negotiate with PG&E and, where necessary, file complaints and protests at FERC. In September 2020, PG&E filed a revised WDT. Under the terms of the new WDT, the City would pay substantially higher rates, at least twice to potentially four times the current charges, and be required to install costly and inefficient equipment not needed for technical, safety or reliability of operations. In addition, Hetchy Power would no longer be allowed to connect to the "network" grid in the center of San Francisco; have new secondary interconnections; and/or serve any small, typically unmetered loads, such as streetlights, Distributed Antenna System (DAS), traffic signals, and bus shelters.

Staff prepare regular reporting to the Board of Supervisors outlining on-going disputes with PG&E over project requirements, costs and delays. During fiscal years 2023 and 2022, Hetchy Power purchased distribution services for \$29,008 and \$22,404, respectively, from PG&E under the terms of the Service Agreements and Interconnection Agreements that implement the WDT. The City continues to litigate and dispute these terms at FERC and in the court systems; and pursue the purchase of PG&E's electric grid in San Francisco.

Western System Power Pool and other Market Purchases and Sales

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal years 2023 and 2022, Hetchy Power purchased \$3,676 and \$4,152 of power and other related products, respectively. Sales of excess power, after meeting Hetchy's obligations, were \$1,157 or 155,000 MWh for 2023 and \$0 for 2022, respectively.

Power Purchase Agreement (PPA)

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a local solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year PPA with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility.

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The PPA sets the starting purchase price of generated energy at \$235/MWh, increasing by 3% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2023, the facility generated 6,006 MWh and the rate was at \$344/MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2023 and 2022, purchases of energy under the Agreement were \$2,037, or 6,006 MWh, and \$2,225, or 6,460 MWh, respectively.

APX, Inc

Hetchy Power and CleanPowerSF participate in the CAISO energy markets which requires the SFPUC to have a contract with a certified Scheduling Coordinator (SC). In June 2022, CleanPowerSF renewed a 5-year contract with APX, Inc with contract amount not to exceed \$134,743 to fulfill this requirement. APX, Inc provides a number of services including but not limited to an interface with the CAISO's energy scheduling portal, manage invoice payments to the CAISO and communications between the CAISO and the SFPUC, and dispatch of the Hetch Hetchy plant 24 hours a day, seven days a week. The contract also provides that APX, Inc will act as the SC for renewable generation plants under some of CleanPowerSF's Power Purchase Agreements. Hetchy Power's share was \$471 and \$456 as of June 30, 2023 and 2022, respectively. CleanPowerSF's share was \$226 and \$192 as of June 30, 2023 and 2022.

On January 6, 2023, Amendment No. 1 was requested and approved to increase this contract by \$125,000, increasing the total contract to \$259,743, with no change to the agreement duration. On March 17, 2023, Amendment No. 2, was approved to increase the contract by \$636,000 for a total not to exceed contract amount of \$895,743, with no change to the agreement duration. The drivers for these Amendments were higher than anticipated power prices, due to extreme weather, draught conditions, and global energy shortages.

CleanPowerSF

CleanPowerSF regularly adds new short-term and medium-term contracts with multiple counterparties pursuant to master agreements, including the WSPP Master Agreement, to purchase renewable, carbon-free and conventional energy and resource adequacy capacity. CleanPowerSF has also entered into long-term contracts for renewable energy and capacity with renewable energy developers including sPower, Terra-Gen, NextEra, Intersect Power and EDF Renewables. These contracts have been entered to allow CleanPowerSF to meet its existing retail sales obligations, to support future retail sales from anticipated load growth, and to comply with State requirement that 65% of CleanPowerSF's Renewables Portfolio Standard (RPS) compliance targets be fulfilled by RPS-eligible electricity from contracts of 10 or more years. Citywide enrollment was completed in 2020. Since it began serving customers in 2016, CleanPowerSF's cumulative opt-out rate is 4.4% of all enrolled accounts. The total power purchase cost, net of wholesale sales, were \$259,532 and \$238,149 in fiscal years 2023 and 2022, respectively.

CleanPowerSF contracts with Calpine Energy Solutions to provide meter data management, billing and customer care support. Calpine is responsible for calculating and providing CleanPowerSF charges to PG&E, which in turn bills both CleanPowerSF and PG&E customers for

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electricity transmission, distribution, and CleanPowerSF generation services. PG&E remits payments received from customers for CleanPowerSF charges to the City. During fiscal years 2023 and 2022, amounts paid were \$4,679 and \$4,730, respectively.

CleanPowerSF Power Purchase Agreement (PPA)

In November 2020, CleanPowerSF executed a Power and Storage Purchase Agreement to purchase solar product and storage product from a solar powered generation facility and battery storage facility located at Livermore pursuant to the 25-year PPA with IP Aramis, LLC (Seller). As of June 30, 2022, CleanPowerSF has cash collateral of \$9,000 for Development Assurance and Performance Assurance from the Seller. The \$9,000 cash collateral was returned to the seller as of June 30, 2023.

CleanPowerSF Guarantee

In March 2018, CleanPowerSF entered into a five-year, \$75,000 Credit Agreement with JPMorgan Chase Bank, National Association ("Bank") to provide letters of credit or loans from the Bank to guarantee certain power purchase agreement payment obligations of CleanPowerSF and to meet working capital needs, if necessary. In November 2021 the Credit Agreement was decreased (at the request of CleanPowerSF) the available amount from \$75,000 to \$20,000, and the stated term of the agreement was extended to March 2024. Additional changes to the agreement effected by the November 2021 Amendments include elimination of target reserve requirements, revisions to debt service coverage (allowing for a liquidity test two times in the aggregate for any consecutive four quarters) and rate-setting covenants, changes to ongoing reporting requirements to the Bank, and changes to events of default, including the addition of an event of default if CleanPowerSF's long-term unenhanced credit rating is downgraded below investment grade or suspended, withdrawn or otherwise unavailable. In May 2022 CleanPowerSF executed another amendment to its Credit Agreement to eliminate and change certain financial covenants contained in the 2018 Credit Agreement. Specifically, this Amendment eliminated the covenant of the Commission to maintain a specified debt service coverage ratio and changed such financial covenant to commit the Commission to maintain a specified level of Day Liquidity on Hand (as defined in the Credit Agreement). The Credit Agreement is secured by CleanPowerSF's net revenues; there is no pledge of, or lien on net revenues that ranks senior to the obligations under the Credit Agreement. The Bank issued letters of credit in the face amounts totaling \$6,183 and \$5,847 for fiscal years ending June 30, 2023 and 2022, respectively. CleanPowerSF did not draw on the Credit Agreement during fiscal years 2023 and 2022. Accordingly, the uncommitted credit capacity under the Credit Agreement was \$13,817 and \$14,153 during fiscal years 2023 and 2022, respectively.

Original financial covenants include that CleanPowerSF maintain a Debt Service Coverage Ratio as defined in the Credit Agreement of not less than 1.05 for each fiscal quarter, as determined for the four consecutive fiscal quarter periods ended on the last day of such fiscal quarter. As of June 30, 2021, CleanPowerSF was not in compliance with this financial covenant as calculated for the four consecutive fiscal quarters ended on such date, resulting in a covenant event of default under the Credit Agreement. In connection with subsequent amendments to the Credit Agreement, JPMorgan Chase granted a waiver of such event of default for the period ended June 30, 2021. CleanPowerSF was in compliance with other covenants and requirements of the Credit Agreement as of June 30, 2021. CleanPowerSF was in compliance with all covenants and requirements of the Credit Agreement as amended as of June 30, 2023 and 2022.

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(Dollars in thousands, unless otherwise stated)

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, requires the disclosure of certain information related to debt, including unused letters of credit. Significant events of default under the Credit Agreement, include 1) non-payment, 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the agreement and 3) bankruptcy and insolvency events, which could result in all outstanding loans under the Credit Agreement to be immediately due and payable; or the immediate termination of the Bank's commitment to issue letters of credit or make loans under the Credit Agreement.

Green Tariff and Community Solar Green Tariff Programs for Disadvantaged Communities

In June 2018, the CPUC established the Disadvantaged Communities-Green Tariff (DAC-GT) and Community Solar Green Tariff (CSGT) program to address barriers to solar adoption faced by low-income electric customers in neglected communities. The DAC-GT program provides a 20% rate discount on 100% RPS eligible electricity service to income-qualified customers residing in Disadvantaged Communities (DACs) as defined by the California Environmental Protection Agency's (Cal EPA). Similar to DAC-GT, the CSGT program allows primarily for the DACs to benefit from the development of solar generation projects located in their own or nearby DACs. CSGT projects must also have a local community-based sponsor that supports site selection and customer enrollment.

The CPUC approved CleanPowerSF's application to establish DAC-GT and CSGT programs in April 2021 and to receive funds to cover program administration and a portion of electricity supply costs. CleanPowerSF began enrolling customers in the DAC-GT program branded as "SuperGreen Saver" on June 1, 2022. The CSGT program is expected to start serving customers during fiscal year 2026, once CleanPowerSF is able to procure electricity from a CSGT-eligible solar project(s). As of June 30, 2023 and 2022, CleanPowerSF received \$868 and \$1,150, respectively, from a combination of ratepayer funds and California Cap and Trade Auction proceeds.

(b) *Litigation*

Hetch Hetchy is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of Hetch Hetchy.

(c) *Grants*

Grants that the Enterprise received are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(16) Subsequent Event

Power Revenue Bonds, 2023 Series A Issuance

In October 2023, the SFPUC issued its San Francisco Power Revenue Bonds, 2023 Series A with a principal of \$123,905 to finance or refinance Power Enterprise projects through the refunding and retirement of commercial paper issued as interim financing for such projects in furtherance of the Power Capital Improvement Program.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

Honorable Mayor and the Board of Supervisors
City and County of San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hetch Hetchy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hetch Hetchy's internal control. Accordingly, we do not express an opinion on the effectiveness of Hetch Hetchy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hetch Hetchy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 26, 2023



San Francisco Public Utilities Commission
An Enterprise Department of the City and
County of San Francisco, California

Cover photo: Moccasin Powerhouse
Generator Step-Up Transformer
Installation, Moccasin Reservoir,
powerhouse and penstocks

Back cover photo: Electric vehicle
(EV) charging stations, San
Antonio Reservoir. Power Lines.
Transmission Line

Photos by: Sabrina Wong,
Robin Scheswohl, Katherine DuTiel

Date of Publication: December 2023

Our mission

To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.

SFPUC Financial Services
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San Francisco, CA 94102-3220
sfpuc.org

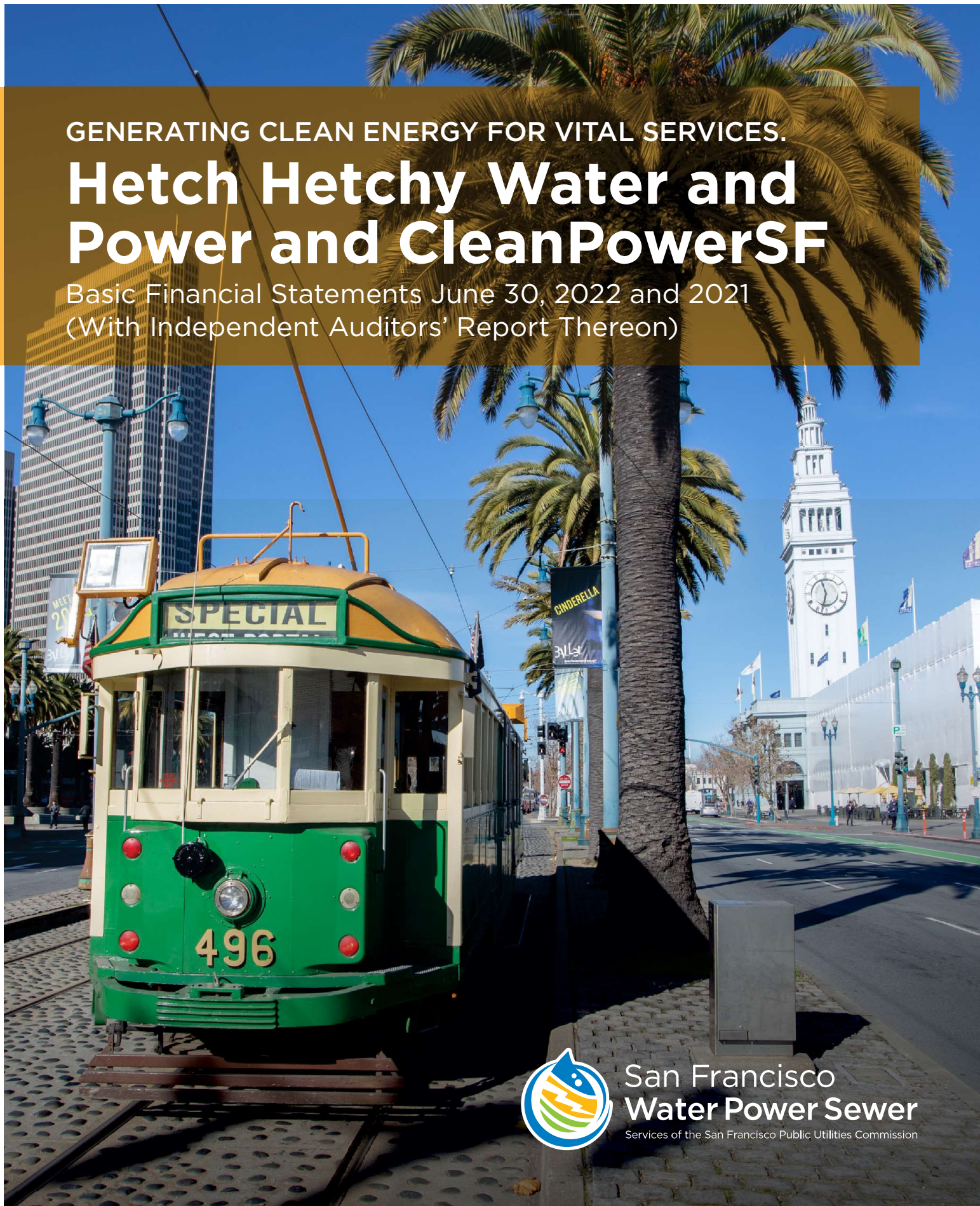


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GENERATING CLEAN ENERGY FOR VITAL SERVICES.

Hetch Hetchy Water and Power and CleanPowerSF

Basic Financial Statements June 30, 2022 and 2021
(With Independent Auditors' Report Thereon)



San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Hetch Hetchy's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Hetch Hetchy, as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hetch Hetchy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of Hetch Hetchy are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and each major fund of the City and county of San Francisco, California that is attributable to the transactions of the Enterprise. They do not purport to, and do not, present fairly the financial position of the City and County of San Francisco, California, as of June 30, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always



detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hetch Hetchy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2023 on our consideration of Hetch Hetchy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hetch Hetchy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hetch Hetchy's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
January 27, 2023

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

This section presents management's analysis of San Francisco Hetch Hetchy Water and Power and CleanPowerSF Enterprise's (Hetch Hetchy or the Enterprise) financial condition and activities as of and for fiscal years ended June 30, 2022 and 2021. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

In May 2016, San Francisco Public Utilities Commission (SFPUC or the Commission) launched CleanPowerSF, a Community Choice Aggregation (CCA) program into operation, pooling the electricity demands of their residents and businesses for the purpose of buying electricity on behalf of those customers. CleanPowerSF provides San Francisco with new clean energy alternatives, with its objectives to reduce greenhouse gas emissions, and to provide the City and County of San Francisco's (the City) energy consumers with renewable electricity supplies at competitive rates. The SFPUC intends CleanPowerSF to be financially independent, with ability to set rates and charges with adequate revenues, and to issue debt to support its operations and future projects. CleanPowerSF is discretely presented as a fund of the Enterprise starting fiscal year 2017.

The information in this MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- COVID-19
- Financial Analysis
- Capital Assets
- Debt Administration
- Rates and Charges
- Request for Information

Organization and Business

SFPUC is a department of the City that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Wastewater, and Hetch Hetchy. The Enterprise was established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. The Enterprise operates the Hetch Hetchy project, which provides both electricity generation and upcountry water service; and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity.

In normal rain years, 85% of San Francisco's drinking water starts out as snow falling on 459 square miles of watershed land in Yosemite National Park and the City may supplement water supply from an additional 193 square miles of watershed in Yosemite National Park and the Stanislaus National Forest during extremely dry years. As the snow melts, it collects in the SFPUC's storage reservoirs, then flows by gravity through over 150 miles of pipelines and tunnels, it turns the turbines in three hydroelectric powerhouses, generating approximately 1.2 billion kilowatt hours of electricity per year. The electricity travels over 160 miles of transmission and distribution lines from the upcountry powerhouses to the San Francisco Bay Area.

Approximately 69% of the electricity generated by Hetchy Power was used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport and its tenants, Zuckerberg San Francisco General Hospital and Trauma Center, City streetlights, Moscone Convention Center, and the

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

Water and Wastewater Enterprises). The remaining 31% of electricity generated was sold to CleanPowerSF and the wholesale electric market.

Hetch Hetchy

Hetch Hetchy provides reliable, high-quality water and electric energy to the City and other customers, protects watershed resources in cooperation with Federal agencies, operates and maintains facilities to a high standard of safety and reliability, and maximizes revenue opportunities within approved levels of risk.

Hetch Hetchy, a stand-alone enterprise is comprised of three funds: 1) Hetch Hetchy Water (Hetchy Water) upcountry operations and water system; 2) Hetch Hetchy Power (Hetchy Power), also referred to as the Power Enterprise, which is wholly contained within the Hetch Hetchy fund; and 3) CleanPowerSF, which is an enterprise fund to aggregate the buying power of customers within San Francisco to purchase renewable energy sources or clean power, is reported as a separate fund of Hetch Hetchy. A number of the facilities are joint assets and used for both water and power generation.

Hetchy Water

For efficiency and to streamline the coordination of upcountry water and power operations, Hetchy Water operates upcountry and joint asset facilities, managing resources in an environmentally responsible manner to a high standard of safety and reliability while meeting regulatory requirements. It is responsible for operating the Hetch Hetchy Reservoir, the main source of water for the Hetch Hetchy system. Hetchy Water operates, maintains, and improves water and power facilities, smaller dams and reservoirs, water transmission systems, power generation facilities, and power transmission assets, including transmission lines to the Newark substation. Hetchy Water delivers high-quality water from upcountry downhill to the Bay Area while optimizing the resulting generation of clean hydropower as water is transported through the system. It maintains land and properties consistent with public health and neighborhood concerns.

Hetchy Power

The core business of Hetchy Power, as a municipal department, is to provide adequate and reliable supplies of electric power to meet the electricity needs of City and County of San Francisco's customers, and to offer, when available, power for the municipal loads and agricultural pumping demands consistent with prescribed contractual obligations and federal law.

Hetchy Power's portfolio consists of hydroelectric generation, onsite solar at SFPUC and other City facilities, generation using bio-methane produced at SFPUC wastewater treatment facilities, and third-party purchases. Consistent with its commitment to the development of cleaner and greener power, and to address environmental concerns and community objectives, Hetchy Power continues to evaluate and expand its existing resource base to include additional renewables, distributed generation, demand management, and energy efficiency programs. As part of its mission and core functions, Hetchy Power provides reliable energy services at reasonable cost to customers, with attention to environmental effects and community concerns.

Hetch Hetchy Joint

A portion of Hetch Hetchy's operating budget, capital program, and assets, provides benefit to both Hetchy Power and Hetchy Water. This is commonly referred to as joint costs and joint assets. Both operating and capital costs that jointly benefit both funds are allocated 55% to Hetchy Power and 45% to Hetchy Water, as has historically been done by the SFPUC.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

CleanPowerSF

CleanPowerSF is a community choice aggregation (CCA) program made possible by the 2002 passage of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation since May 2016. The core business is to provide greener electricity generation to residential and commercial consumers in San Francisco. Through CleanPowerSF, SFPUC seeks to achieve several complementary goals, including affordable and competitive electricity generation rates, a diverse electricity resource portfolio that is comprised of renewable and other clean sources of supply, and high-quality customer service. The program serves more than 380,000 customer accounts and provides San Francisco with an electricity supply from its default "Green" product that is at least 50% California State Renewables Portfolio Standard (RPS)-eligible. Additionally, CleanPowerSF offers "SuperGreen", a 100% RPS-eligible electricity supply, that is available to customers for a small additional cost. On June 1, 2022, CleanPowerSF opened enrollment for its "SuperGreen Saver" product, which provides eligible low-income ratepayers residing in Disadvantaged Communities with 100% RPS electricity at a 20% bill discount.

Overview of the Financial Statements

Hetch Hetchy's financial statements include the following:

Statements of Net Position present information on Hetch Hetchy's assets, deferred outflows, liabilities, and deferred inflows as of year-end, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Hetch Hetchy is improving or worsening.

While the *Statements of Net Position* provide information about the nature and amount of resources and obligations as of year-end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of Hetch Hetchy's operations over the course of the fiscal year and information as to how the net position changed during the year. These statements can be used as an indicator of the extent to which Hetch Hetchy has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements from some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expenses of employee earned but unused vacation leave.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operational, capital financing, non-capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not presented on the face of the financial statements.

COVID-19

On February 25, 2020, the City's Mayor issued a proclamation declaring a local emergency to exist in connection with the imminent spread within the City of the novel coronavirus ("COVID-19"). On March 16, 2020, the City's Health Officer issued a stay safe at home order, Health Officer Order No. C19-07 (the "Stay Safe At Home Order"), requiring most people and City employees to remain in their homes subject to certain exceptions including obtaining essential goods (such as food and necessary supplies), and requiring the

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closure of nonessential businesses. In addition, Section 2 of the second supplement to the emergency proclamation authorizes the SFPUC to suspend (a) the discontinuation or shutoff of power service for residents and businesses in the City for non-payment of power bills and (b) the imposition of late payment penalties or fees for delinquent power bills through July 11, 2020. The suspension was extended on December 8, 2020 through June 30, 2021, again on April 27, 2021 through March 31, 2022 and then again on February 22, 2022 to July 31, 2022 for shut off of power service for residential customers and to June 30, 2023 for late payment penalties. The suspension of the return of delinquent CleanPowerSF customers to Pacific Gas & Electric Company (PG&E) generation service for failure to pay CleanPowerSF charges was extended to June 30, 2022. This proclamation did not have a material effect on the operations of the Hetch Hetchy Enterprise.

Financial Analysis

Financial Highlights for Fiscal Year 2022

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by \$893,577.
- Net position increased by \$43,480 or 5.5% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$117,106 or 17.5% to \$786,643.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$89,276 or 22.8% to \$480,447.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$61,898 or 15.1% to \$470,768.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by \$276,423.
- Net position increased by \$24,519 or 10.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$23,526 or 13.3% to \$201,007.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$2,222 or 4.7% to \$49,312.
- Operating expenses, excluding other non-operating expenses, increased by \$1,784 or 3.5% to \$52,303.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by \$527,476.

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- Net position increased by \$21,718 or 4.6% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$93,580 or 19.0% to \$585,636.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$36,859 or 27.0% to \$173,242.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$10,707 or 7.4% to \$156,347.

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by \$89,678.
- Net position decreased by \$2,757 or 3.2% during the fiscal year.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2022.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$50,195 or 24.2% to \$257,893.
- Operating expenses, excluding interest expenses increased by \$49,407 or 23.2% to \$262,118.

Financial Highlights for Fiscal Year 2021

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by \$767,191.
- Net position increased by \$16,429 or 2.1% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$63,326 or 10.4% to \$669,537.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by \$30,113 or 7.1% to \$391,171.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$19,845 or 5.1% to \$408,871.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by \$216,214.
- Net position increased by \$13,630 or 6.5% during the fiscal year.

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- Capital assets, net of accumulated depreciation and amortization, increased by \$16,699 or 10.4% to \$177,481.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$12,137 or 34.7% to \$47,090.
- Operating expenses, excluding other non-operating expenses, increased by \$5,644 or 12.6% to \$50,517.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by \$462,136.
- Net position increased by \$6,857 or 1.5% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$46,627 or 10.5% to \$492,056.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by \$4,488 or 3.2% to \$136,383.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, decreased by \$2,489 or 1.7% to \$145,638.

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by \$88,841.
- Net position decreased by \$4,058 or 4.5% during the fiscal year.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2021.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by \$37,762 or 15.4% to \$207,698.
- Operating expenses, excluding interest expense increased by \$16,690 or 8.5% to \$212,716.

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Financial Position

The following tables summarize Hetch Hetchy's changes in net position:

**Table 1A - Consolidated Hetch Hetchy
Comparative Condensed Net Position
June 30, 2022, 2021, and 2020**

	2022	Restated 2021*	2020 **	2022-2021 Change	2021-2020 Change
Total assets:					
Current and other assets	\$ 500,159	469,507	441,635	30,652	27,872
Capital assets, net of accumulated depreciation and amortization	786,643	669,537	606,211	117,106	63,326
Total assets	<u>1,286,802</u>	<u>1,139,044</u>	<u>1,047,846</u>	<u>147,758</u>	<u>91,198</u>
Deferred outflows of resources:					
Pensions	15,731	18,133	18,238	(2,402)	(105)
Other post-employment benefits	8,069	8,719	5,452	(650)	3,267
Total deferred outflows of resources	<u>23,800</u>	<u>26,852</u>	<u>23,690</u>	<u>(3,052)</u>	<u>3,162</u>
Liabilities:					
Current liabilities:					
Bonds	1,966	1,928	2,115	38	(187)
Certificates of participation	427	405	384	22	21
Commercial paper	40,019	114,671	63,535	(74,652)	51,136
Other liabilities	94,550	83,058	63,178	11,492	19,880
Subtotal current liabilities	<u>136,962</u>	<u>200,062</u>	<u>129,212</u>	<u>(63,100)</u>	<u>70,850</u>
Long-term liabilities:					
Bonds	192,520	44,384	47,693	148,136	(3,309)
Certificates of participation	12,593	13,026	13,444	(433)	(418)
Other liabilities	51,150	114,392	98,697	(63,242)	15,695
Subtotal long-term liabilities	<u>256,263</u>	<u>171,802</u>	<u>159,834</u>	<u>84,461</u>	<u>11,968</u>
Total liabilities:					
Bonds	194,486	46,312	49,808	148,174	(3,496)
Certificates of participation	13,020	13,431	13,828	(411)	(397)
Commercial paper	40,019	114,671	63,535	(74,652)	51,136
Other liabilities	145,700	197,450	161,875	(51,750)	35,575
Total liabilities	<u>393,225</u>	<u>371,864</u>	<u>289,046</u>	<u>21,361</u>	<u>82,818</u>
Deferred inflows of resources:					
Related to pensions	82,029	3,288	10,843	78,741	(7,555)
Other post-employment benefits	7,670	6,546	3,867	1,124	2,679
Total deferred inflows of resources	<u>89,699</u>	<u>9,834</u>	<u>14,710</u>	<u>79,865</u>	<u>(4,876)</u>
Net position:					
Net investment in capital assets	553,169	500,547	482,986	52,622	17,561
Restricted for debt service	140	99	142	41	(43)
Restricted for capital projects	-	-	6,513	-	(6,513)
Unrestricted	274,369	283,552	278,139	(9,183)	5,413
Total net position	<u>\$ 827,678</u>	<u>784,198</u>	<u>767,780</u>	<u>43,480</u>	<u>16,418</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

**Eliminated interfund payable and receivable of \$1,800 working capital loan between Hetchy Power and CleanPowerSF in fiscal year 2020.

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Table 1B - Hetchy Water
Comparative Condensed Net Position
June 30, 2022, 2021, and 2020

	<u>2022</u>	<u>Restated 2021*</u>	<u>2020</u>	<u>2022-2021 Change</u>	<u>2021-2020 Change</u>
Total assets:					
Current and other assets	\$ 109,752	98,225	92,711	11,527	5,514
Capital assets, net of accumulated depreciation and amortization	<u>201,007</u>	<u>177,481</u>	<u>160,782</u>	<u>23,526</u>	<u>16,699</u>
Total assets	<u>310,759</u>	<u>275,706</u>	<u>253,493</u>	<u>35,053</u>	<u>22,213</u>
Deferred outflows of resources:					
Pensions	6,696	7,799	7,950	(1,103)	(151)
Other post-employment benefits	<u>3,272</u>	<u>3,725</u>	<u>2,332</u>	<u>(453)</u>	<u>1,393</u>
Total deferred outflows of resources	<u>9,968</u>	<u>11,524</u>	<u>10,282</u>	<u>(1,556)</u>	<u>1,242</u>
Liabilities:					
Current liabilities	17,380	15,873	6,769	1,507	9,104
Long-term liabilities	<u>16,956</u>	<u>43,623</u>	<u>40,441</u>	<u>(26,667)</u>	<u>3,182</u>
Total liabilities	<u>34,336</u>	<u>59,496</u>	<u>47,210</u>	<u>(25,160)</u>	<u>12,286</u>
Deferred inflows of resources:					
Related to pensions	34,477	988	4,335	33,489	(3,347)
Other post-employment benefits	<u>2,734</u>	<u>2,085</u>	<u>1,195</u>	<u>649</u>	<u>890</u>
Total deferred inflows of resources	<u>37,211</u>	<u>3,073</u>	<u>5,530</u>	<u>34,138</u>	<u>(2,457)</u>
Net position:					
Net investment in capital assets	201,007	177,481	160,782	23,526	16,699
Restricted for capital projects	—	—	6,513	—	(6,513)
Unrestricted	<u>48,173</u>	<u>47,180</u>	<u>43,740</u>	<u>993</u>	<u>3,440</u>
Total net position	<u>\$ 249,180</u>	<u>224,661</u>	<u>211,035</u>	<u>24,519</u>	<u>13,626</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

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**Table 1C - Hetchy Power
Comparative Condensed Net Position
June 30, 2022, 2021, and 2020**

	2022	Restated 2021*	2020	2022-2021 Change	2021-2020 Change
Total assets:					
Current and other assets	\$ 260,560	249,365	228,845 **	11,195	20,520
Capital assets, net of accumulated depreciation and amortization	585,636	492,056	445,429	93,580	46,627
Total assets	<u>846,196</u>	<u>741,421</u>	<u>674,274</u>	<u>104,775</u>	<u>67,147</u>
Deferred outflows of resources:					
Pensions	8,183	9,531	9,716	(1,348)	(185)
Other post-employment benefits	3,999	4,552	2,850	(553)	1,702
Total deferred outflows of resources	<u>12,182</u>	<u>14,083</u>	<u>12,566</u>	<u>(1,901)</u>	<u>1,517</u>
Liabilities:					
Current liabilities:					
Bonds	1,966	1,928	2,115	38	(187)
Certificates of participation	427	405	384	22	21
Commercial paper	40,019	114,671	63,535	(74,652)	51,136
Other liabilities	48,549	49,450	33,218	(901)	16,232
Subtotal current liabilities	<u>90,961</u>	<u>166,454</u>	<u>99,252</u>	<u>(75,493)</u>	<u>67,202</u>
Long-term liabilities:					
Bonds	192,520	44,384	47,693	148,136	(3,309)
Certificates of participation	12,593	13,026	13,444	(433)	(418)
Other liabilities	22,646	55,425	54,085	(32,779)	1,340
Subtotal long-term liabilities	<u>227,759</u>	<u>112,835</u>	<u>115,222</u>	<u>114,924</u>	<u>(2,387)</u>
Total liabilities:					
Bonds	194,486	46,312	49,808	148,174	(3,496)
Certificates of participation	13,020	13,431	13,828	(411)	(397)
Commercial paper	40,019	114,671	63,535	(74,652)	51,136
Other liabilities	71,195	104,875	87,303	(33,680)	17,572
Total liabilities	<u>318,720</u>	<u>279,289</u>	<u>214,474</u>	<u>39,431</u>	<u>64,815</u>
Deferred inflows of resources:					
Related to pensions	42,138	1,207	5,298	40,931	(4,091)
Other post-employment benefits	3,342	2,548	1,461	794	1,087
Total deferred inflows of resources	<u>45,480</u>	<u>3,755</u>	<u>6,759</u>	<u>41,725</u>	<u>(3,004)</u>
Net position:					
Net investment in capital assets	352,162	323,066	322,204	29,096	862
Restricted for debt service	140	99	142	41	(43)
Unrestricted	141,876	149,295	143,261	(7,419)	6,034
Total net position	<u>\$ 494,178</u>	<u>472,460</u>	<u>465,607</u>	<u>21,718</u>	<u>6,853</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

**Included \$1,800 working capital loan to CleanPowerSF in fiscal year 2020.

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**Table 1D - CleanPowerSF
Comparative Condensed Net Position
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	2022	Restated 2021*	2020	2022-2021 Change	2021-2020 Change
Total assets:					
Current and other assets	\$ 129,847	121,917	121,879	7,930	38
Total assets	129,847	121,917	121,879	7,930	38
Deferred outflows of resources:					
Pensions	852	803	572	49	231
Other post-employment benefits	798	442	270	356	172
Total deferred outflows of resources	1,650	1,245	842	405	403
Liabilities:					
Current liabilities	28,621	17,735	24,991 **	10,886	(7,256)
Long-term liabilities	11,548	15,344	4,171	(3,796)	11,173
Total liabilities	40,169	33,079	29,162	7,090	3,917
Deferred inflows of resources:					
Related to pensions	5,414	1,093	1,210	4,321	(117)
Other post-employment benefits	1,594	1,913	1,211	(319)	702
Total deferred inflows of resources	7,008	3,006	2,421	4,002	585
Net position:					
Unrestricted	84,320	87,077	91,138	(2,757)	(4,061)
Total net position	\$ 84,320	87,077	91,138	(2,757)	(4,061)

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

**Included \$1,800 working capital loan from Hetchy Power in fiscal year 2020.

Net Position, Fiscal Year 2022

Hetch Hetchy

Hetch Hetchy's net position of \$827,678 increased by \$43,480 or 5.5% from prior year resulting from a net increase of \$144,706 in total assets and deferred outflows of resources, offset by an increase of \$101,226 in total liabilities and deferred inflows of resources (see Table 1A). Current and other assets were \$500,159, a \$30,652 or 6.5% increase from prior year, mainly due to net pension assets recognized in current year based on actuarial reports. Hetch Hetchy adopted GASB Statement No. 87, Leases and recognized right-to-use assets net of accumulated amortization of \$364 and \$369 in lease liabilities as of June 30, 2022. See Note 9 for additional information about the leases.

Capital assets, net of accumulated depreciation and amortization, increased by \$117,106 or 17.5% to \$786,643 primarily from construction and capital improvement activities for the Bay Corridor Project and the Mountain Tunnel Improvement Project. Deferred outflows of resources decreased by \$3,052 due to decreases of \$2,402 in pensions and \$650 in other post-employment benefits (OPEB) based on actuarial reports.

Total liabilities increased by \$21,361 or 5.7% to \$393,225. The increases included \$73,111 in outstanding debt mainly from Power 2021 Series AB revenue bonds and commercial paper issuances offset by a decrease of \$51,750 in other liabilities. Deferred inflows of resources increased by \$79,865 due to increases of \$78,741 in relation to pensions and \$1,124 in OPEB based on actuarial reports.

Hetchy Water

Hetchy Water's net position of \$249,180 increased by \$24,519 or 10.9% resulting from a net increase of \$33,497 in total assets and deferred outflows of resources, offset by a net increase of \$8,978 in total

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liabilities and deferred inflows of resources (see Table 1B). The increase of \$11,527 in current and other assets was attributed to increases of \$13,912 in net pension assets based on actuarial report, \$33 in charges for services receivables due to higher consumption from Lawrence Livermore National Laboratory, \$19 in interest receivables due to higher interest accrual from City's Treasury, and \$8 in inventory due to more purchases than issuances during the fiscal year. The increases were offset by decreases of \$2,173 in cash and investment with City Treasury mainly from higher project spending, \$192 in prepaid charges, advances, and other receivables mainly due to prepayment to Turlock Irrigation District for relicensing studies, \$67 decrease in due from other governments related to State grant reimbursement received for Lower Cherry Aqueduct project, and \$13 decrease in lease right-to-use assets net of accumulated amortization per implementation of GASB Statement No. 87, *Leases*.

Capital assets, net of accumulated depreciation and amortization, increased by \$23,526 or 13.3% to \$201,007 primarily from construction and capital improvement activities for the Mountain Tunnel Improvement Project and San Joaquin Pipeline Valve and Safe Entry Improvement Project. Deferred outflows of resources decreased by \$1,556 due to decreases of \$1,103 in pensions and \$453 in other post-employment benefits (OPEB) based on actuarial reports.

Hetchy Water's total liabilities decreased by \$25,160 or 42.3% to \$34,336, as explained by decreases of \$26,645 in net pension liability based on actuarial estimates, \$2,733 in restricted payables to vendors and contractors mainly due to lower year-end expense accruals for capital projects, \$204 in OPEB obligations based on actuarial assumptions, \$16 in lease liability per implementation of GASB Statement No. 87, *Leases*, and \$6 in grant advance due to recognition of prior year State grant for the Rim Fire project. These decreases were offset by increases of \$4,192 in unrestricted payables mainly for license and permit fees to National Park Service, \$148 in employee related benefits mainly due to increase in workers' compensation, \$102 in general liability based on actuarial estimates, and \$2 increase in rental deposits and prepaid rent.

Deferred inflows of resources increased by \$34,138 due to increases of \$33,489 in relation to pensions and \$649 in OPEB based on actuarial reports.

Hetchy Power

Hetchy Power's net position of \$494,178 increased by \$21,718 or 4.6% resulting from a net increase of \$102,874 in total assets and deferred outflows of resources, offset by an increase of \$81,156 in total liabilities and deferred inflows of resources (see Table 1C). Increase of \$11,195 in current and other assets was attributed to increases of \$17,004 in net pension assets based on actuarial report, \$7,882 in prepaid charges, advances, and other receivables mainly due to collateral paid to satisfy the CAISO's financial security requirements, \$3,295 in cash and investments mainly due to higher collections from billings, \$76 in interest receivables due to higher interest accrual from City's Treasury, and \$31 increase in Federal grants receivable mainly from the Rim Fire Project.

These increases were offset by decreases of \$8,835 in charges for services receivables due to completion of billing system implementation in prior year resulting in more timely billings in current year, \$7,497 in restricted interest and other receivables mainly due to decrease in vendor prepayment to PG&E for the Bay Corridor Project, \$602 in due from other City departments mainly from repayment for Sustainable Energy Account, \$142 in inventory due to more issuances than purchases during the fiscal year, and \$17 decrease in lease right-to-use assets net of accumulated amortization per implementation of GASB Statement No. 87, *Leases*.

Capital assets, net of accumulated depreciation and amortization, increased by \$93,580 or 19.0% to \$585,636 primarily from construction and capital improvement activities for the Bay Corridor Project and

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Mountain Tunnel Improvement Project. Deferred outflows of resources decreased by \$1,901 due to decreases of \$1,348 in pensions and \$553 in OPEB based on actuarial reports.

Hetchy Power's total liabilities of \$318,720 increased by \$39,431 or 14.1%. As of June 30, 2022, outstanding debt increased by \$73,111 due to \$124,000 from 2021 Series AB revenue bond issuances, \$63,058 from commercial paper issuance for Hetchy Power facilities, and \$27,022 in bond premium from 2021 Series AB revenue bonds, offset by \$140,043 in commercial paper, bonds, and certificates of participation principal repayments, and \$926 in amortization of premium and discount. Other liabilities of \$71,195, such as payables to vendors, employees, contractors, and other government agencies for goods and services under contractual agreements, decreased by \$33,680 or 32.1%, mainly due to decreases of \$32,566 in net pension liability based on actuarial estimates, \$6,241 in unrestricted payables mainly from prior year wheeling charges to APX, Inc., \$248 in OPEB obligations based on actuarial assumptions, \$85 in general liability based on actuarial estimates, and \$19 decrease in lease liability per implementation of GASB Statement No. 87, *Leases*. These decreases were offset by increases of \$3,666 in restricted payables to vendors and contractors due to higher year-end expense accruals for capital projects, \$868 increase in interest payable related to 2021 Series AB revenue bond issuances, \$734 in unearned revenues, refunds, and other, \$200 in employee related benefits mainly due to increase in workers' compensation, and \$11 in due to Department of Public Works for painting of light poles. Increase of \$734 in unearned revenues, refunds, and other was mainly due to increases of \$458 in deposits from custom work projects, \$267 in prepayments from Distributed Antenna System (DAS) program, and \$60 in overpayments received from customers, offset by decreases of \$48 in grant advance due to recognition of Rim Fire State grant revenue and \$3 in deposits received from retail customers.

Deferred inflows of resources increased by \$41,725 due to increases of \$40,931 in relation to pensions and \$794 in OPEB based on actuarial reports.

CleanPowerSF

CleanPowerSF's net position of \$84,320 decreased by \$2,757 or 3.2%, resulting from an increase of \$11,092 in total liabilities and deferred inflows of resources, offset by an increase of \$8,335 in total assets and deferred outflows of resources (see Table 1D). Increase in total assets of \$7,930 was due to increases of \$20,602 in prepaid expenses included \$12,236 in collateral paid to satisfy the CAISO's financial security requirements, \$5,914 from power purchase credits, and \$2,452 in prepayments to PG&E for electricity purchases. Other increases included \$20,438 in charges for services receivables due to pre-approved rate increases, \$1,833 in net pension assets based on actuarial report, and \$6 in interest receivable due to higher interest accrual from City's Treasury. These increases were offset by decreases of \$34,604 in cash and investments with City Treasury mainly attributed to volatile and increased pricing in power market and \$345 decrease in lease right-to-use assets net of accumulated amortization per implementation of GASB Statement No. 87, *Leases*.

Deferred outflows of resources increased by \$405 due to increases of \$356 in OPEB and \$49 in pensions based on actuarial reports.

Total liabilities increased by \$7,090 or 21.4% to \$40,169, mainly explained by \$7,667 increase in payables to suppliers for power purchases, \$3,168 increase in unearned revenues, refunds, and other due to \$2,676 grants received in advance from California Public Utilities Commission (CPUC) for the new Disadvantaged Communities Programs (DAC) and the Community Food Service Energy Efficiency program, \$503 from net energy metering credits to retail and commercial customers, offset by a decrease of \$11 from customer prepayments. Other increases included \$228 for employee related benefits including vacation sick leave and accrued payroll mainly due to an extra day in current year-end payroll accrual when compared to prior

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year and \$26 in general liability based on actuarial estimates. The increases were offset by decreases of \$3,008 in net pension liability based on actuarial estimates, \$645 in OPEB obligations based on actuarial assumptions, and \$346 decrease in lease liability and interest payable per implementation of GASB Statement No. 87, Leases.

Deferred inflows of resources increased by \$4,002 due to an increase of \$4,321 in relation to pensions, offset by a decrease of \$319 in OPEB based on actuarial reports.

Net Position, Fiscal Year 2021

Hetch Hetchy

Hetch Hetchy's net position of \$784,209 increased by \$16,429 or 2.1% from prior year resulting from an increase of \$93,621 in total assets and deferred outflows of resources, offset by a net increase of \$77,192 in total liabilities and deferred inflows of resources (see Table 1A). Current and other assets were \$468,768, a \$27,133 or 6.1% increase from prior year, driven by higher charges for services receivables from Hetchy Power. In April 2021, Hetchy Power implemented a new electric utility billing system causing billings from April to June to be delayed.

Capital assets, net of accumulated depreciation and amortization, increased by \$63,326 or 10.4% to \$669,537 primarily from construction and capital improvement activities, and additions of facilities, improvements, machinery, and equipment for the Bay Corridor Project and Holm Powerhouse Rehabilitation & Kirkwood Powerhouse Oil Containment Upgrades. Deferred outflows of resources increased by \$3,162 due to an increase of \$3,267 in other post-employment benefits (OPEB) based on actuarial reports offset by a decrease of \$105 in pensions.

Total liabilities increased by \$82,068 or 28.4% to \$371,114. The increases included \$47,243 in outstanding debt and \$34,825 in other liabilities. Deferred inflows of resources decreased by \$4,876 due to a decrease of \$7,555 in relation to pensions offset by an increase of \$2,679 in OPEB based on actuarial reports.

Hetchy Water

Hetchy Water's net position of \$224,665 increased by \$13,630 or 6.5% resulting from an increase of \$23,381 in total assets and deferred outflows of resources, offset by a net increase of \$9,751 in total liabilities and deferred inflows of resources (see Table 1B). The increase of \$5,440 in current and other assets was attributed to increases of \$7,423 in cash and investment with City Treasury mainly due to a \$16,000 transfer from the Water Enterprise to fund upcountry projects, offset by higher project spending, \$413 increase in charges for services receivables due to higher consumption from Lawrence Livermore National Laboratory, and \$4 increase in inventory due to more purchases than issuances during the fiscal year. The increases were offset by decreases of \$1,996 in due from other governments mainly due to prior year reimbursements received for disaster emergency recoveries related to the 2018 Moccasin Storm and \$186 in interest receivables due to lower annualized interest rate. Prepaid charges, advances, and other receivables decreased by \$114 due to \$448 Rim Fire insurance recovery collections and \$4 in amortization of the advance paid to the Recreation and Parks Department for the Civic Center Garage, offset by an increase of \$338 in vendor prepayment to Turlock Irrigation District for Federal Energy Regulatory Commission (FERC) relicensing studies and California Department of Water Resources for annual dam fees. Other decreases include \$104 due from the City Attorney's Office for legal services.

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Capital assets, net of accumulated depreciation and amortization, increased by \$16,699 or 10.4% to \$177,481 primarily from construction and capital improvement activities for the Mountain Tunnel Improvement Project and Repair & Replacement Life Extension Program, and additions of facilities, improvements, machinery, and equipment. Deferred outflows of resources increased by \$1,242 due to an increase of \$1,393 in OPEB based on actuarial reports offset by a decrease of \$151 in pensions.

Hetchy Water's total liabilities increased by \$12,208 or 25.9% to \$59,418, as explained by increases of \$5,778 in restricted payables to vendors and contractors mainly due to higher year-end expense accruals for capital projects, \$5,168 in net pension liability based on actuarial report, \$3,304 in unrestricted payables mainly for license and permit fees to National Park Service, \$626 in employee related benefits including workers' compensation, vacation, sick leave and accrued payroll mainly due to an extra day in current year-end payroll accrual when compared to prior year and a 3% cost of living adjustment increase in December 2020, and \$4 increase in rental deposits. The increases were offset by decreases of \$1,906 in OPEB obligations based on actuarial assumptions, \$493 in grant advance due to recognition of Rim Fire grant revenue, \$240 in payable due to the City Attorney's Office for unbilled legal services, and \$33 in general liability based on actuarial estimates.

Deferred inflows of resources decreased by \$2,457 due to a decrease of \$3,347 in relation to pensions offset by an increase of \$890 in OPEB based on actuarial reports.

Hetchy Power

Hetchy Power's net position of \$472,464 increased by \$6,857 or 1.5% resulting from an increase of \$68,574 in total assets and deferred outflows of resources, offset by a net increase of \$61,717 in total liabilities and deferred inflows of resources (see Table 1C). Increase of \$20,430 in current and other assets was attributed to an increase of \$16,057 in charges for services receivables, of which \$15,673 was attributed to billing delays as a result of transitioning to new billing system implemented in April 2021. In addition, there was an increase of \$1,051 in year-end accrual for California Independent System Operator (CAISO) Congestion Revenue Right (CRR) credits, offset by an increase of \$667 in allowance for doubtful accounts due to increased past due balances as a result of the Mayor's emergency proclamation that Hetchy Power temporarily suspend collection procedures and utility shutoffs for past due accounts to help customers with financial hardship due to COVID-19. Restricted interest and other receivables increased by \$11,632 mainly due to vendor prepayment to PG&E for the Bay Corridor Project.

Prepaid charges, advances, and other receivables increased by \$405 mainly due to \$496 increase in vendor prepayments to PG&E for electric system reliability compliance product offset by decreases of \$61 in receivables for the Distributed Antenna System (DAS) program due to more payments received, \$16 in custom work receivables for Sunnydale Housing Projects, and \$14 in amortization of the advance paid to the Recreation and Parks Department for the Civic Center Garage. Inventory increased by \$211 due to more purchases than issuances during the fiscal year. The increases were offset by \$3,280 decrease in cash and investment with/outside City Treasury due primarily to increase in capital spending. Due from other City departments decreased by \$2,763, attributed to the final repayments of \$1,800 from CleanPowerSF for working capital loan, \$506 for the Sustainable Energy Account, \$331 from City Attorney's Office for legal services, \$109 from Wastewater Enterprise for the Living Machine System, and \$105 from the Recreation and Parks Department for Energy Efficiency Projects, offset by increases of \$46 in interest receivable from Treasure Island Development Authority (TIDA) in connection of an upgraded submarine power cable for the Treasure Island to increase service capacity and \$42 from the Department of Public Works for Hunters Point Shipyard Development and Transbay Folsom Street Improvement custom work projects. Other decreases include \$1,377 in grants receivable due to reimbursement received for disaster emergency recoveries

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related to the Rim Fire and 2018 Moccasin Storm, and \$455 in interest receivables due to lower annualized interest rate.

Capital assets, net of accumulated depreciation and amortization, increased by \$46,627 or 10.5% to \$492,056 primarily due to additions of facilities, improvements, machinery, and equipment for the Bay Corridor Project and Holm Powerhouse Rehabilitation & Kirkwood Powerhouse Oil Containment Upgrades. Deferred outflows of resources increased by \$1,517 due to an increase of \$1,702 in OPEB based on actuarial reports offset by a decrease of \$185 in pensions.

Hetchy Power's total liabilities of \$279,195 increased by \$64,721 or 30.2%. As of June 30, 2021, outstanding debts increased by \$47,243 and was attributable to \$51,136 in commercial paper issuance for Hetchy Power facilities, offset by \$2,402 in bonds and certificates of participation principal repayments, \$1,272 in return of unspent bond proceeds for 2015 NCREBs, and \$219 in amortization of premium and discount. Other liabilities of \$104,781, such as payables to vendors, employees, contractors, and other government agencies for goods and services under contractual agreements, increased by \$17,478 or 20.0%, mainly due to increases of \$8,724 in unrestricted payables mainly for wheeling charges to APX Inc., \$6,934 restricted payables to vendors and contractors due to higher year-end expense accruals for capital projects, \$6,317 in net pension liability based on actuarial report, and \$876 in employee related benefits including workers' compensation, vacation, sick leave and accrued payroll mainly due to an extra day in current year-end payroll accrual when compared to prior year and a 3% cost of living adjustment increase in December 2020. Offsetting decreases include \$2,330 in OPEB obligations based on actuarial assumptions, \$1,649 in unearned revenue, \$1,114 in general liability based on actuarial estimates, \$231 in due to City Attorney's Office for unbilled legal services, and \$49 in interest payable as a result of decreased outstanding debts and lower interest rates for commercial paper. Unearned revenue decreased by \$1,649 due to \$1,208 in remittance of utility tax collected, \$1,193 in power revenue from commercial deposits, \$681 in residential allowance refund for the Alice Griffith Housing Project, and \$609 in recognition of Rim Fire grants revenue received in advance, offset by increases of \$1,707 in deposits from custom work projects, \$200 in prepayments from DAS program, \$117 in overpayments received from customers, and \$18 in deposits received from retail customers and security deposits for cottage rental.

Deferred inflows of resources decreased by \$3,004 due to a decrease of \$4,091 in relation to pensions offset by an increase of \$1,087 in OPEB based on actuarial reports.

CleanPowerSF

CleanPowerSF's net position of \$87,080 decreased by \$4,058 or 4.5%, resulting from a net decrease of \$134 in total assets and deferred outflows of resources and a net increase of \$3,924 in total liabilities and deferred inflows of resources (see Table 1D). Total assets decreased by \$537 due to a \$6,447 decrease in charges for services receivables attributed to an increase of \$3,675 in allowance for doubtful accounts due to higher past due balances in customer power utility accounts after the Mayor's proclamation to extend the moratorium on utility shutoffs and bill collections to help customers experiencing financial hardship as a result of COVID-19. Other decreases include \$2,772 in receivables mainly due to one-time customer assistance bill credits related to COVID-19 relief, \$576 in prepaid charges, advances, and other receivables mainly due to lower vendor prepayments for purchased electricity and \$160 in interest receivables due to lower annualized interest rate. The decreases were offset by an increase of \$6,646 in cash and investment with City Treasury mainly from cash collateral received for power purchase agreement.

Deferred outflows of resources increased by \$403 due to increases of \$231 in pensions and \$172 in OPEB based on actuarial reports.

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Total liabilities of \$32,501 increased by \$3,339 or 11.4%, which was mainly explained by \$9,000 in cash collateral received for power purchase agreement (see Note 14(a)), \$1,203 in net pension liability based on actuarial report, \$712 in OPEB obligations based on actuarial assumptions, and an increase of \$200 in employee related benefits including vacation, sick leave and accrued payroll mainly due to an extra day in current year-end payroll accrual when compared to prior year, and a 3% cost of living adjustment increase in December 2020. Other increases in unearned revenues, refunds, and other, include \$90 from net energy metering credits to retail and commercial customers, \$86 from customer prepayments, and \$4 from utility and electric energy surcharge tax payable. These increases were offset by decreases of \$6,047 in payables to vendors and contractors mainly from lower power purchases, \$1,809 due to other City departments (\$1,800 final working capital loan repayment to Hetchy Power and \$9 to City Attorney's Office for unbilled legal services), and \$100 in general liability based on actuarial estimates.

Deferred inflows of resources increased by \$585 due to an increase of \$702 in OPEB based on actuarial reports offset by a decrease of \$117 in relation to pensions.

Results of Operations

The following tables summarize Hetch Hetchy's revenues, expenses, and changes in net position:

**Table 2A - Consolidated Hetch Hetchy
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022, 2021, and 2020**

	2022	Restated 2021*	2020	2022-2021 Change	2021-2020 Change
Revenues:					
Charges for services	\$ 480,198	390,924	420,937	89,274	(30,013)
Rents and concessions	249	247	347	2	(100)
Interest and investment income (loss)	(8,219)	(157)	9,449	(8,062)	(9,606)
Other non-operating revenues	19,001	21,552	28,868	(2,551)	(7,316)
Total revenues	<u>491,229</u>	<u>412,566</u>	<u>459,601</u>	<u>78,663</u>	<u>(47,035)</u>
Expenses:					
Operating expenses	470,768	408,870	389,026	61,898	19,844
Interest expenses	5,630	2,000	2,809	3,630	(809)
Amortization of premium, discount, and issuance costs	192	(219)	(228)	411	9
Non-operating expenses	628	965	1,071	(337)	(106)
Total expenses	<u>477,218</u>	<u>411,616</u>	<u>392,678</u>	<u>65,602</u>	<u>18,938</u>
Change in net position before transfers	14,011	950	66,923	13,061	(65,973)
Transfers from the City and County of San Francisco	30,001	16,000	14,000	14,001	2,000
Transfers to the City and County of San Francisco	(532)	(532)	(32)	-	(500)
Net transfers	<u>29,469</u>	<u>15,468</u>	<u>13,968</u>	<u>14,001</u>	<u>1,500</u>
Change in net position	<u>43,480</u>	<u>16,418</u>	<u>80,891</u>	<u>27,062</u>	<u>(64,473)</u>
Net position at beginning of year	784,198	767,780	686,889	16,418	80,891
Net position at end of year	<u>\$ 827,678</u>	<u>784,198</u>	<u>767,780</u>	<u>43,480</u>	<u>16,418</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

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Table 2B - Hetchy Water
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022, 2021, and 2020

	<u>2022</u>	<u>Restated 2021*</u>	<u>2020</u>	<u>2022-2021 Change</u>	<u>2021-2020 Change</u>
Revenues:					
Charges for services	\$ 49,200	46,979	34,797	2,221	12,182
Rents and concessions	112	111	156	1	(45)
Interest and investment income (loss)	(2,932)	(232)	1,932	(2,700)	(2,164)
Other non-operating revenues	479	1,352	3,861	(873)	(2,509)
Total revenues	<u>46,859</u>	<u>48,210</u>	<u>40,746</u>	<u>(1,351)</u>	<u>7,464</u>
Expenses:					
Operating expenses	52,303	50,519	44,873	1,784	5,646
Interest expenses	1	2	-	(1)	2
Non-operating expenses	37	63	11	(26)	52
Total expenses	<u>52,341</u>	<u>50,584</u>	<u>44,884</u>	<u>1,757</u>	<u>5,700</u>
Change in net position before transfers	(5,482)	(2,374)	(4,138)	(3,108)	1,764
Transfers from the City and County of San Francisco	30,001	16,000	14,000	14,001	2,000
Change in net position	<u>24,519</u>	<u>13,626</u>	<u>9,862</u>	<u>10,893</u>	<u>3,764</u>
Net position at beginning of year	224,661	211,035	201,173	13,626	9,862
Net position at end of year	<u>\$ 249,180</u>	<u>224,661</u>	<u>211,035</u>	<u>24,519</u>	<u>13,626</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

Table 2C - Hetchy Power
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022, 2021, and 2020

	<u>2022</u>	<u>Restated 2021*</u>	<u>2020</u>	<u>2022-2021 Change</u>	<u>2021-2020 Change</u>
Revenues:					
Charges for services	\$ 173,105	136,247	140,680	36,858	(4,433)
Rents and concessions	137	136	191	1	(55)
Interest and investment income (loss)	(4,001)	24	5,746	(4,025)	(5,722)
Other non-operating revenues	15,763	19,273	25,006	(3,510)	(5,733)
Total revenues	<u>185,004</u>	<u>155,680</u>	<u>171,623</u>	<u>29,324</u>	<u>(15,943)</u>
Expenses:					
Operating expenses	156,347	145,640	148,127	10,707	(2,487)
Interest expenses	5,624	1,972	2,740	3,652	(768)
Amortization of premium, discount, and issuance costs	192	(219)	(228)	411	9
Non-operating expenses	591	902	1,060	(311)	(158)
Total expenses	<u>162,754</u>	<u>148,295</u>	<u>151,699</u>	<u>14,459</u>	<u>(3,404)</u>
Change in net position before transfers	22,250	7,385	19,924	14,865	(12,539)
Transfers to the City and County of San Francisco	(532)	(532)	(32)	-	(500)
Change in net position	<u>21,718</u>	<u>6,853</u>	<u>19,892</u>	<u>14,865</u>	<u>(13,039)</u>
Net position at beginning of year	472,460	465,607	445,715	6,853	19,892
Net position at end of year	<u>\$ 494,178</u>	<u>472,460</u>	<u>465,607</u>	<u>21,718</u>	<u>6,853</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

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Table 2D - CleanPowerSF
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022, 2021, and 2020

	<u>2022</u>	<u>Restated 2021*</u>	<u>2020</u>	<u>2022-2021 Change</u>	<u>2021-2020 Change</u>
Revenues:					
Charges for services	\$ 257,893	207,698	245,460	50,195	(37,762)
Interest and investment income (loss)	(1,286)	51	1,771	(1,337)	(1,720)
Other non-operating revenues	2,759	927	1	1,832	926
Total revenues	<u>259,366</u>	<u>208,676</u>	<u>247,232</u>	<u>50,690</u>	<u>(38,556)</u>
Expenses:					
Operating expenses	262,118	212,711	196,026	49,407	16,685
Interest expenses	5	26	69	(21)	(43)
Total expenses	<u>262,123</u>	<u>212,737</u>	<u>196,095</u>	<u>49,386</u>	<u>16,642</u>
Change in net position	<u>(2,757)</u>	<u>(4,061)</u>	<u>51,137</u>	<u>1,304</u>	<u>(55,198)</u>
Net position at beginning of year	87,077	91,138	40,001	(4,061)	51,137
Net position at end of year	<u>\$ 84,320</u>	<u>87,077</u>	<u>91,138</u>	<u>(2,757)</u>	<u>(4,061)</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

Result of Operations, Fiscal Year 2022

Hetch Hetchy

Hetch Hetchy's total revenues were \$491,229, an increase of \$78,663 or 19.1% over prior year (see Table 2A). Charges for services increased by \$89,274 or 22.8% from prior year's revenues mainly due to higher billings from CleanPowerSF and Hetchy Power. Total expenses increased by \$65,602 or 15.9% primarily from higher energy purchases due to volatile and increased pricing in power market. (See Table 2A).

Hetchy Water

Hetchy Water's total revenues were \$46,859, a decrease of \$1,351 or 2.8% from prior year's revenues (see Table 2B). Decrease was due to \$2,700 in investment loss and a decrease of \$873 from other non-operating revenues, offset by increases of \$2,221 from charges for services and \$1 from rents and concessions.

Charges for services were \$49,200, an increase of \$2,221 or 4.7% mainly due to increased water assessment fees from the Water Enterprise to fund upcountry water-related costs and higher consumption from Lawrence Livermore National Laboratory. Rents were \$112, an increase of \$1 or 0.9% mainly due to consumer price index adjustment. Interest and investment loss was \$2,932 mainly due to unrealized losses as a result of the decline in market value of investments related to rising interest rates. Other non-operating revenues were \$479, a decrease of \$873 or 64.6% mainly due to \$899 lower Federal and State grants revenue from the Rim Fire Projects, offset by increases of \$19 in overhead charges and \$7 in net gain from sale of fixed assets.

Total operating expenses, excluding interest expenses and other non-operating expenses, were \$52,303, an increase of \$1,784 or 3.5%. The increase was primarily due to increases of \$4,275 in other operating expenses mainly due to higher capital spending, \$612 in services provided by other departments mainly due to higher legal service charges from City Attorney's Office, \$456 in contractual services mainly from increased engineering and management consulting services, \$309 in general and administrative expenses mainly due to higher fees, licenses, and permit expenses, \$277 in depreciation and amortization mainly related to additional building, structure and equipment placed in service, and \$90 in material and supplies

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mainly from fuel and water treatment supplies. These increases were offset by a decrease of \$4,235 in personnel services due to lower pension obligations based on actuarial reports.

Other non-operating expenses were \$37, a decrease of \$26 due to lower payments to community-based organization programs. Interest expenses were \$1, a decrease of \$1 due to implementation of GASB Statement No. 87, *Leases*. A transfer in of \$30,001 was received from the Water Enterprise to fund various Mountain Tunnel projects.

As a result of the above activities, net position for the year ended June 30, 2022 increased by \$24,519 or 10.9% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were \$185,004, an increase of \$29,324 or 18.8% from prior year's revenues (see Table 2C). Increases included \$36,858 from charges for services and \$1 from rents and concessions, offset by decreases of \$4,025 from interest and investment income and \$3,510 from other non-operating revenues.

Charges for services were \$173,105, an increase of \$36,858 or 27.1%, due to \$22,537 in billings from City departments such as San Francisco International Airport, Municipal Transportation Agency, and Port of San Francisco as a result of increased operation due to easing of COVID-19 restrictions and \$14,980 in Congestion Revenue Right (CRR) credits from California Independent System Operator (CAISO), offset by a decrease of \$659 in resale of capacity to CleanPowerSF. Rents increased slightly by \$1 or 0.7% to \$137 mainly due to consumer price index adjustment. Interest and investment loss was \$4,001, a decrease of \$4,025, mainly due to unrealized losses as a result of the decline in market value of investments related to rising interest rates.

Other non-operating revenues were \$15,763, a decrease of \$3,510 or 18.2%, mainly due to lower collections of \$3,254 from the Power System Mitigation Project, \$1,371 in Cap and Trade revenue due to decrease of 97,000 allowances or 80% sold, \$1,194 in revenue from Alice Griffith Housing Project due to prior year recognition of commercial deposits, \$797 in settlement revenue from prior year litigation settlement, and \$335 in overhead charges, offset by an increase of \$3,441 in State and Federal grants revenue from Rim Fire Project and California Utility Arrearages Relief Payment Program for unpaid bills.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$10,707 or 7.4%, to \$156,347. The increase was primarily due to increases of \$15,559 in purchased electricity and transmission, distribution, and other power costs due to volatile and increased pricing in power market, \$1,978 in depreciation and amortization mainly for buildings, facilities, machinery, and equipment related to higher capitalization of assets, \$899 in contractual services mainly for management consulting and engineering services, \$280 in materials and supplies mainly for electrical supplies and tools, and \$116 in services provided by other departments mainly due to higher risk management costs. The increases were offset by decreases of \$6,110 in personnel services due to lower pension obligations based on actuarial reports, \$1,420 in general and administrative expenses mainly due to lower judgements and claims expenses, and \$595 decrease in other operating expenses mainly due to higher capitalized project expenses.

Interest expenses increased by \$3,652 or 185.2% mainly due to no bond interest capitalization recognized in current year resulting from the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Amortization of premium and discount increased by \$411 or 187.7% mainly due to costs of issuance for 2021 Series AB revenue bond.

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Other non-operating expenses were \$591, a decrease of \$311 or 34.5% mainly due to lower payments for GoSolarSF Incentive Program. Transfer out of \$532 includes \$500 to General Fund for repayment of Educational Revenue Augmentation Funds and \$32 to the Office of the City's Administrator for the Surety Bond Program.

As a result of the above activities, net position for the year ended June 30, 2022 increased by \$21,718 or 4.6% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were \$259,366, a \$50,690 or 24.3% increase over prior year (see Table 2D). Charges for services increased by \$50,195 or 24.2% mainly due to increases of \$44,215 in electricity sales to retail and commercial customers resulting from a 16% average rate increase, \$2,831 reduction in allowance for doubtful accounts attributed to assistance received from California Utility Arrearages Relief Payment Program (CAPP) for eligible customer account arrearages, \$2,817 in one-time customer assistance bill credit related to COVID-19 in prior year, and \$332 from higher capacity sales to Hetchy Power. Other non-operating revenue increased by \$1,832 mainly due to \$2,424 Federal grants received from CAPP, offset by a decrease of \$592 liquidated damage compensation received from supplier for delay of the Renewable Energy Project in prior year. Interest and investment loss was \$1,286 as a result of the decline in market value of investments related to rising interest rates.

Total operating expenses, excluding interest expenses were \$262,118, an increase of \$49,407 or 23.2% from prior year. The increase was due to \$48,749 in purchased electricity and transmission, distribution, and other power costs due to volatile and increased pricing in power market, and higher resource adequacy capacity purchases related to compliance requirements from the California Public Utilities Commission. Other operating expenses increased by \$2,895 due to \$2,424 grant expense recognized for CAPP when applied to customer account arrearages and \$471 in operating expenses mainly for the Neighborhood Steward Program and the new Local Renewable Energy. Other increases included \$1,394 in general and administrative expenses mainly due to higher judgements and claims expenses, \$143 in professional and contractual services mainly from higher software licensing fee, and \$7 in material and supplies mainly for data processing equipment. These increases were offset by decreases of \$3,474 in personnel services due to lower pension obligations based on actuarial reports, \$307 in services provided by other departments mainly due to lower labor support from Hetchy Power. Interest expenses decreased by \$21 mainly due to repayment of working capital loan to Hetchy Power completed in prior year.

As a result of the above activities, net position for the year ended June 30, 2022 decreased by \$2,757 or 3.2% compared to prior year.

Result of Operations, Fiscal Year 2021

Hetch Hetchy

Hetch Hetchy's total revenues were \$412,566, a decrease of \$47,035 or 10.2% over prior year (see Table 2A). Charges for services decreased by \$30,013 or 7.1% from prior year's revenues mainly due to lower billings from CleanPowerSF and Hetchy Power. Total expenses increased by \$18,927 or 4.8% primarily due to increase in California Independent System Operator (CAISO) charges for CleanPowerSF market energy purchases (See Table 2A).

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Hetchy Water

Hetchy Water's total revenues were \$48,210, an increase of \$7,464 or 18.3% from prior year's revenues (see Table 2B). Increase was due to \$12,182 from charges for services, offset by decreases of \$2,509 from other non-operating revenues, \$2,164 in interest and investment income, and \$45 from rents and concessions.

Charges for services were \$46,979, an increase of \$12,182 or 35.0% mainly due to increased water assessment fees from the Water Enterprise to fund upcountry water-related costs and higher consumption from Lawrence Livermore National Laboratory. Rents were \$111, a decrease of \$45 or 28.8% mainly from lower cottage rental revenue. Other non-operating revenues were \$1,352, a decrease of \$2,509 or 65.0% mainly due to decreases of \$1,510 in Federal and State grants revenue resulting from lower collections from State grants related to 2018 Moccasin Storm, \$995 from prior year Rim Fire recoveries, and \$4 in net gain from sale of fixed assets. Interest and investment loss was \$232 mainly due to unrealized loss attributed to decrease in market value in cash and investments with City Treasury and lower interest rates.

Total operating expenses, excluding other non-operating expenses, were \$50,517, an increase of \$5,644 or 12.6%. The increase was attributed to \$3,567 in personnel services resulting from cost of living adjustments, higher retirement contribution rates, and increased personnel and fringe benefit costs. Other increases include \$773 in contractual services mainly from increased engineering and management consulting services, \$733 in depreciation and amortization related to additional building, structure and equipment placed in service, \$664 in services provided by other departments mainly due to higher bureau support costs and legal service charges from City Attorney's Office, and \$162 in other operating expenses mainly due to higher capital spending. These increases were offset by decreases of \$190 in general and administrative expenses mainly due to lower judgements and claims expenses and \$65 decrease in materials and supplies mainly for water and sewage treatment supplies.

Other non-operating expenses were \$63, an increase of \$52 due to payments to community-based organization programs. A transfer in of \$16,000 was received from the Water Enterprise to fund upcountry projects.

As a result of the above activities, net position for the year ended June 30, 2021 increased by \$13,630 or 6.5% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were \$155,680, a decrease of \$15,943 or 9.3% from prior year's revenues (see Table 2C). Decreases included \$5,733 from other non-operating revenues, \$5,722 from interest and investment income, \$4,433 from charges for services, and \$55 from rents and concessions.

Charges for services were \$136,247, a decrease of \$4,433 or 3.2% was attributed to a decrease of \$8,362 in sales to City departments, wholesale, and Treasure Island customers due to COVID-19 related impacts and \$667 increase in allowance for doubtful accounts. Receivables aging over 120 days increased significantly due to the suspension of collection efforts and moratorium on utility shutoffs in response to the COVID-19 emergency proclamation issued by the Mayor. The decrease was offset by increases of \$2,537 in sales to retail customers mainly due to new affordable redevelopment housing accounts and \$2,059 in resale of capacity to CleanPowerSF due to excess capacity of electric system reliability compliance product. Rents were \$136, a decrease of \$55 or 28.8% mainly due to lower cottage rental revenue. Interest and investment income were \$24, a decrease of \$5,722 or 99.6% mainly due to decreases of \$4,691 in interest

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earned from lower interest rates and cash balance, unrealized loss, and \$1,031 from interest accrued for Treasure Island submarine power cable in prior year.

Other non-operating revenues were \$19,273, a decrease of \$5,733, or 22.9%, mainly due to decreases of \$5,739 from Low Carbon Fuel Standard (LCFS) credit sales revenue, attributed to less carbon fuel credit generated by San Francisco Municipal Transportation Agency, \$2,574 in license fee from Transbay Cable Project due to final payment received in prior year, \$1,139 in Cap and Trade revenue due to decrease of 23,000 or 16% allowance sold, and \$654 decrease in fees collected from DAS program. Other decreases include \$402 in State and Federal grants revenue resulting from lower collections from State grants related to 2018 Moccasin Storm and Federal grants related to Hazard Mitigation grant, \$70 in Federal interest subsidy due to lower debt outstanding, \$37 in damage claims revenue, and \$5 in net gain from sale of fixed assets. These decreases were offset by increases of \$2,921 in collection for Power System Impact Mitigation Project, \$797 in settlement revenue related to litigation, \$736 in commercial deposits from Alice Griffith Housing Project recognized as revenue, \$259 in overhead charges, and \$174 in miscellaneous revenue mainly from generation interconnection study and refunds from vendor.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, decreased by \$2,489 or 1.7%, to \$145,638. The decrease was primarily due to \$6,138 in purchased electricity and transmission, distribution, and other power costs due to lower electricity sales, \$289 in services provided by other departments mainly due to lower bureau support costs, \$270 in material and supplies due to lower equipment maintenance, and \$96 decrease in depreciation and amortization for machinery and equipment. The decreases were offset by increases of \$1,704 in general and administrative expenses mainly due to higher litigation expenses, \$1,572 in other operating expenses mainly due to higher capital spending, \$984 in contractual services mainly from new in-city inventory warehouse rental at Pier 23 in San Francisco, and \$44 in personnel services resulting from cost of living adjustments, higher retirement contribution rates, higher pension obligations based on actuarial reports, and increased personnel and fringe benefit costs.

Interest expenses were \$1,970, a decrease of \$770 or 28.1% due to decrease in outstanding debt and lower interest rates for commercial paper. Amortization of premium and discount slightly decreased by \$9 or 3.9% to \$219.

Other non-operating expenses were \$902, a decrease of \$158 or 14.9% mainly due to decrease in payments for GoSolarSF Incentive Program. Transfer out of \$532 includes \$500 to General Fund for repayment of Educational Revenue Augmentation Funds and \$32 to the Office of the City's Administrator for the Surety Bond Program.

As a result of the above activities, net position for the year ended June 30, 2021 increased by \$6,857 or 1.5% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were \$208,676, a \$38,556 or 15.6% decrease over prior year (see Table 2D). Charges for services decreased by \$37,762 or 15.4% mainly due to a decrease of \$32,077 in electricity sales to retail and commercial customers resulting from consumption decrease of 92,503 MWh or 3%, a one-time customer assistance bill credit of \$2,817 related to COVID-19 utility bill relief, an increase of \$2,451 in allowance for doubtful accounts, and \$417 lower capacity sales to other entities. Receivables aging over 120 days increased significantly due to the suspension of collection efforts and moratorium on utility shutoffs in response to the COVID-19 emergency proclamation issued by the Mayor. Interest and investment income decreased by \$1,720 or 97.1% due to unrealized loss and lower interest rates on pooled

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cash and investments. Other non-operating revenue increased by \$926 due to liquidated damage compensation from vendor for the delay of Renewable Energy Project.

Total operating expenses, excluding interest expenses were \$212,716, an increase of \$16,690 or 8.5% from prior year. The increase was due to \$16,219 in purchased electricity and transmission, distribution and other power costs as a result of higher prices in the CAISO market and increase in resource adequacy capacity purchases related to new compliance requirements from the California Public Utilities Commission. Other increases include \$1,200 in services provided by other departments due to increased labor support from Hetchy Power and legal service charges from City Attorney's Office, and \$305 increase in other operating expenses mainly from the Neighborhood Steward Program and the new Local Renewable Energy Program. These increases were offset by decreases of \$529 in professional and contractual services mainly from lower management consulting services, \$279 in personnel services mainly due to lower pension obligations and OPEB based on actuarial reports, \$195 in general and administrative expenses mainly due to lower judgements and claims based on actuarial estimates, and \$31 in material and supplies due to reduced furnishings expenses. Interest expenses were \$18, a decrease of \$51 or 73.9% due to lower principal outstanding from Hetchy Power working capital loan.

As a result of the above activities, net position for the year ended June 30, 2021 decreased by \$4,058 or 4.5% compared to prior year.

Capital Assets

The following tables summarize Hetch Hetchy's changes in capital assets.

Table 3A - Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2022, 2021, and 2020

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2022-2021</u> Change	<u>2021-2020</u> Change
Hetch Hetchy					
Facilities, improvements, machinery, and equipment	\$ 440,460	432,916	386,560	7,544	46,356
Intangible assets	24,472	24,932	25,393	(460)	(461)
Land and rights-of-way	5,181	5,181	5,181	—	—
Construction work in progress	316,530	206,508	189,077	110,022	17,431
Total	<u>786,643</u>	<u>669,537</u>	<u>606,211</u>	<u>117,106</u>	<u>63,326</u>
Hetchy Water					
Facilities, improvements, machinery, and equipment	133,263	128,335	122,433	4,928	5,902
Intangible assets	10,374	10,581	10,789	(207)	(208)
Land and rights-of-way	3,232	3,232	3,232	—	—
Construction work in progress	54,138	35,333	24,328	18,805	11,005
Total	<u>201,007</u>	<u>177,481</u>	<u>160,782</u>	<u>23,526</u>	<u>16,699</u>
Hetchy Power					
Facilities, improvements, machinery, and equipment	307,197	304,581	264,127	2,616	40,454
Intangible assets	14,098	14,351	14,604	(253)	(253)
Land and rights-of-way	1,949	1,949	1,949	—	—
Construction work in progress	262,392	171,175	164,749	91,217	6,426
Total	<u>\$ 585,636</u>	<u>492,056</u>	<u>445,429</u>	<u>93,580</u>	<u>46,627</u>

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Capital Assets, Fiscal Year 2022

Hetch Hetchy

Hetch Hetchy has capital assets of \$786,643, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2022 (see Table 3A). This amount represents an increase of \$117,106 or 17.5%, resulting from increases of \$110,022 in construction work in progress and \$7,544 in facilities, improvements, machinery and equipment, offset by a decrease of \$460 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2022 include the following:

Table 3B - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2022

	Hetchy Water	Hetchy Power	2022 Total
Bay Corridor Project	\$ —	46,608	46,608
Mountain Tunnel Improvement Project	16,638	20,335	36,973
Moccasin Powerhouse Rewind	—	12,368	12,368
O'Shaughnessy Dam Access & Drainage Improvements and Outlet Works	1,733	2,118	3,851
San Joaquin Pipeline Valve & Safe Entry Improvement	2,952	—	2,952
Repair and Replacement Life Extension Program	2,776	—	2,776
Intervening Facilities	—	2,758	2,758
Pier 70	—	2,739	2,739
Van Ness - Bus Rapid Transit	—	2,423	2,423
Transmission Line Clearance Mitigation	—	1,711	1,711
Other project additions individually below \$1,500	5,555	19,799	25,354
Additions to Construction Work in Progress	<u>\$ 29,654</u>	<u>110,859</u>	<u>140,513</u>
San Joaquin Pipeline Tesla Valves and Installation	\$ 4,410	—	4,410
O'Shaughnessy Dam Access & Drainage Improvements - Stairs and Fall Protection	1,931	2,360	4,291
Pier 70	—	1,720	1,720
Transmission Line Clearance Mitigation	—	1,508	1,508
Other project additions individually below \$1,500	4,672	14,386	19,058
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	<u>\$ 11,013</u>	<u>19,974</u>	<u>30,987</u>

Hetchy Water

Hetchy Water has capital assets of \$201,007, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2022 (see Table 3A). This amount represents an increase of \$23,526 or 13.3%, primarily due to increases of \$18,805 in construction work in progress and \$4,928 in facilities, improvements, machinery, and equipment, offset by a decrease of \$207 in amortization of intangible assets.

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For the year ended June 30, 2022, Hetchy Water's major additions to construction work in progress totaled \$29,654. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$11,013 (see Table 3B).

Hetchy Power

Hetchy Power has capital assets of \$585,636, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2022 (see Table 3A). This amount represents an increase of \$93,580 or 19.0%, primarily due to increases of \$91,217 in construction work in progress and \$2,616 in facilities, improvements, machinery, and equipment, offset by a decrease of \$253 in amortization of intangible assets.

For the year ended June 30, 2022, Hetchy Power's major additions to construction work in progress totaled \$110,859. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$19,974 (see Table 3B).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2022 and 2021.

See Note 4 for additional information about capital assets.

Capital Assets, Fiscal Year 2021

Hetch Hetchy

Hetch Hetchy has capital assets of \$669,537, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2021 (see Table 3A). This amount represents an increase of \$63,326 or 10.4%, resulting from increases of \$46,356 in facilities, improvements, machinery and equipment and \$17,431 in construction work in progress, offset by a decrease of \$461 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

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Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2021 include the following:

Table 3C - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2021

	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>2021 Total</u>
Bay Corridor Project	\$ —	31,556	31,556
Mountain Tunnel Improvement Project	7,744	9,465	17,209
Transmission Line Clearance Mitigation & Upgrade	—	6,176	6,176
Repair & Replacement Life Extension Program	5,188	—	5,188
Moccasin Penstock Rehabilitation and Powerhouse Rewind	—	4,374	4,374
Van Ness - Bus Rapid Transit	—	2,742	2,742
Moccasin Reservoir Security Fence	2,723	—	2,723
San Joaquin Pipeline Valve & Safe Entry Improvement	2,115	—	2,115
Treasure Island Capital Improvements	—	2,025	2,025
Other project additions individually below \$2,000	4,816	13,721	18,537
Additions to Construction Work in Progress	<u>\$ 22,586</u>	<u>70,059</u>	<u>92,645</u>
Holm Powerhouse Rehabilitation & Kirkwood Powerhouse Oil Containment Upgrades	\$ —	21,920	21,920
Electrical Underground Duct Bank 23rd & Illinois South Street	—	18,133	18,133
Moccasin Reservoir Security Fence	3,549	—	3,549
Switch Yard Asset	—	3,533	3,533
San Joaquin Pipeline Rehabilitation	3,243	—	3,243
San Francisco Academy Solar Carport	—	2,657	2,657
Other project additions individually below \$2,000	4,911	9,585	14,496
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	<u>\$ 11,703</u>	<u>55,828</u>	<u>67,531</u>

Hetchy Water

Hetchy Water has capital assets of \$177,481, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2021 (see Table 3A). This amount represents an increase of \$16,699 or 10.4%, primarily due to increases of \$11,005 in construction work in progress and \$5,902 in facilities, improvements, machinery, and equipment, offset by a decrease of \$208 in amortization of intangible assets.

For the year ended June 30, 2021, Hetchy Water's major additions to construction work in progress totaled \$22,586. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$11,703 (see Table 3C).

Hetchy Power

Hetchy Power has capital assets of \$492,056, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2021 (see Table 3A). This amount represents an increase of \$46,627 or 10.5%, primarily due to increases of \$40,454 in facilities, improvements, machinery, and equipment and \$6,426 in construction work in progress, offset by a decrease of \$253 in amortization of intangible assets.

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For the year ended June 30, 2021, Hetchy Power's major additions to construction work in progress totaled \$70,059. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$55,828 (see Table 3C).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2021 and 2020.

See Note 4 for additional information about capital assets.

Debt Administration

Hetch Hetchy

As of June 30, 2022, Hetch Hetchy has outstanding Certificates of Participation, Clean Renewable Energy Bonds (CREBs), Qualified Energy Conservation Bonds (QECBs), New Clean Renewable Energy Bonds (NCREBs), 2015 Series AB revenue bonds, 2021 Series AB revenue bonds, and commercial paper. The aforementioned debts are obligations of the Power Enterprise. See Hetchy Power section below for more details.

Hetchy Water

Hetchy Water did not have debt outstanding as of June 30, 2022 and 2021. Debt, including bond issuances, associated with the funding of water-related, upcountry infrastructure capital improvements is issued through the Water Enterprise, and is reflected in the Water Enterprise's financial statements.

Hetchy Power

As of June 30, 2022 and 2021, Hetchy Power had outstanding debt of \$247,525 and \$174,414, respectively, as shown in Table 4. More detailed information about the Hetchy Power's debt activity is presented in Notes 6, 7 and 8 to the financial statements.

CleanPowerSF

CleanPowerSF did not have any debt outstanding as of June 30, 2022 and 2021.

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**Table 4 - Hetchy Power
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2022, 2021, and 2020**

	2022	2021	2020	2022-2021 Change	2021-2020 Change
Clean Renewable Energy Bonds 2008	\$ 415	823	1,231	(408)	(408)
Certificates of Participation 2009 Series C	427	838	1,235	(411)	(397)
Certificates of Participation 2009 Series D (BABs)	12,593	12,593	12,593	—	—
Qualified Energy Conservation Bonds 2011	3,138	3,687	4,229	(549)	(542)
New Clean Renewable Energy Bonds 2012	—	—	130	—	(130)
New Clean Renewable Energy Bonds 2015	1,637	1,779	3,190	(142)	(1,411)
2015 Series A Revenue Bonds	35,144	35,297	35,444	(153)	(147)
2015 Series B Revenue Bonds	3,849	4,726	5,584	(877)	(858)
2021 Series A Revenue Bonds	90,213	—	—	90,213	—
2021 Series B Revenue Bonds	60,090	—	—	60,090	—
Commercial Paper	40,019	114,671	63,535	(74,652)	51,136
Total	<u>\$ 247,525</u>	<u>174,414</u>	<u>127,171</u>	<u>73,111</u>	<u>47,243</u>

The increase of \$73,111 was mainly due to \$124,000 in 2021 Series AB revenue bond issuances, \$63,058 in commercial paper issuance for Hetchy Power facilities, and \$27,022 in bond premium for 2021 Series AB revenue bonds, offset by \$140,043 in commercial paper, bonds, and certificates of participation principal repayments, and \$926 in amortization of premium and discount.

Credit Ratings and Bond Insurance – The Power Enterprise's Power Revenue Bonds have been rated "AA-" by Fitch Inc and "AA" by Standard and Poor's (S&P) as of June 30, 2022 and 2021, respectively.

In December 2020, Moody's Investors Service, ("Moody's") assigned a first-time A2 Issuer Rating to CleanPowerSF, with a stable outlook. Hetch Hetchy Water and Power contains the Power Enterprise as a separate enterprise fund, with CleanPowerSF a component unit of the Power Enterprise. CleanPowerSF is tracked and audited as a standalone fund, with financial statements, including revenues and expenses, separate and discrete from the Power Enterprise. As such, CleanPowerSF is deemed to be a separate credit from the Power Enterprise, with its own credit rating.

Debt Service Coverage – Pursuant to the Indenture, the Power Enterprise is required to collect sufficient net revenues each fiscal year, together with any Available Funds (except Bond Reserve Funds) which include unappropriated fund balances and reserves, and cash and book value of investments held by the Treasurer for the Hetchy Power, that the SFPUC reasonably expects would be available, to pay principal and interest becoming due and payable on all outstanding bonds as provided in the Indenture, less any refundable credits, at least equal to 1.25 times annual debt service for said fiscal year. The Series 2015 AB power revenue bonds represent the first series of senior lien revenue bonds of Hetchy Power. Pursuant to Power's Master Trust Indenture, senior lien debt service coverage excludes debt service on subordinate obligations, such as Hetchy Power's existing CREBS, NCREBs, and QECBs. During fiscal year 2022, the Power Enterprise's net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Power Enterprise's Indenture (see Note 8).

Debt Authorization – Pursuant to Charter Section 9.107(6), the Power Enterprise can incur indebtedness upon three-fourths vote of the Board of Supervisors, for the purpose of the reconstruction or replacement of existing water facilities and electric power facilities, or combinations thereof, under the jurisdiction of the Public Utilities Commission. Pursuant to Charter Section 9.107(8), the Power Enterprise can issue revenue bonds, without voter approval, upon an affirmative vote of the Board of Supervisors, for the purpose of the acquisition, construction, installation, equipping, improvement, or rehabilitation of equipment or facilities for

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renewable energy and energy conservation. Pursuant to Proposition A, approved by the San Francisco voters on June 5, 2018, City Charter Section 8B.124 is amended to authorize the Power Enterprise to enter into indebtedness, including revenue bonds, notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors to reconstruct, replace, expand, repair, improve or construct new power facilities under the jurisdiction of SFPUC or for any other purpose of the Power Enterprise, and in compliance with City Charter Section 8B.124. Proposition A expressly prohibits the SFPUC from issuing bonds to finance the construction of power plants that generate electricity using fossil fuels or nuclear energy. As of June 30, 2022 and 2021, \$163,555 and \$39,555 of Hetchy Power revenue bonds were issued against existing authorization of \$555,043 and \$535,699, respectively.

Cost of Debt Capital – The Power Enterprise's outstanding long-term senior lien debt consists of the 2015 Series AB and 2021 Series AB Power Revenue Bonds issued in May 2015 and December 2021, respectively, which are issued under the Master Indenture and are senior in lien to all the other Enterprise's outstanding debt obligations. Coupon interest rates range from 3.0% to 5.0%. The Power Enterprise has previously issued and incurred debt service on Tax Credit Bonds and certificates of participation, which constitute subordinate obligations. Interest rates on the Tax Credit Bonds, which include QECBs and NCREBs, ranging from 1.2% to 1.5% (net of the federal tax subsidy). Certificates of participation carried interest rates ranging from 2.0% to 6.5%. The Power Enterprise's short-term debt issued under its commercial paper program has interest rates ranging from 0.1% to 1.1% and 0.1% to 0.2% during fiscal years 2022 and 2021, respectively.

Rates and Charges

Hetchy Water

Hetchy Water charges for services relates to the storage and delivery of water. Assessment fees from the Water Enterprise, which cover the water-related upcountry costs, were \$45,815 and \$44,149 for the years ended June 30, 2022 and 2021, respectively. In fiscal year 2023, the assessment fees will be \$49,636, an increase of \$3,821 or 8.3% as reflected in the fiscal year 2023 adopted budget.

Hetchy Power

Municipal Rates

Hetchy Power charges for services relates to power generation and electricity delivery to contractual and municipal customers. For municipal power services, customers are typically charged a General Use rate or Enterprise rate. Enterprise rates are charged based on projected PG&E equivalent rates by customer class. General fund department customers are mostly charged a General Use rate, a rate that is currently below cost of service. These General Use rates, however, are moving closer towards cost of service and increasing by \$0.01 per kWh on an annual basis beginning July 1, 2020. The General Use rates have been adopted every two years.

On May 10, 2020, the Commission adopted two years of General Use rates effective July 1, 2020 through June 30, 2022. The adopted General Use rate for fiscal years 2022 and 2021 are \$0.09877/kWh and \$0.08877/kWh, respectively. The Power Enterprise has developed rates under the cost of service analysis model and completed the 2022 Power Rates Study in spring of 2022, in which General Use rates have been modernized to standard customer classes and incrementally increased to cost of service over the next few years. New rates effective fiscal year 2023 have been adopted in May 2022. The SFPUC Rates Schedules and Fees is available at <https://sfpuc.org/accounts-services/water-power-and-sewer-rates>.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

Retail Rates

The Commission approved a new schedule of retail electric rates, fees, and charges for residential, commercial, and industrial customers where Hetch Hetchy has been designated as the power provider for retail customers to be applied to meter readings on or after July 1, 2016. Total bundled service charges for residential service rates and low-income residential service rates are calculated using the total rates, monthly, based on monthly meter reading, plus any applicable taxes.

To date, Hetchy Power has prepared service standards, developed system plans and specifications, acquired materials and equipment, and initiated construction of primary distribution facilities.

Pursuant to City and County of San Francisco Charter Section 8B.125, an independent rate study is performed at least once every five years. The rate study is undertaken to examine future revenue requirements and cost-of-service of the Power Enterprise. In fall of 2020, SFPUC engaged a consultant to perform a cost-of-service study. The informed rate setting from this study resulted in recommendation and approval by the Commission in the spring of 2022 for rates to be effective July 1, 2023. The SFPUC Rates Schedules and Fees is available at <https://sfpuc.org/accounts-services/water-power-and-sewer-rates>.

CleanPowerSF

CleanPowerSF began offering services in May 2016, giving residential and commercial electricity consumers in San Francisco a choice of having their electricity supplied from clean renewable sources, such as solar and wind, at competitive rates. CleanPowerSF offers two products: a "Green" product comprised of at least 50% renewable energy and a "SuperGreen" product comprised of 100% renewable energy. Most customers take service under the "Green" product rates and remaining customers have opted to upgrade to "SuperGreen" product rates. On May 25, 2021, the Commission approved a CleanPowerSF rate adjustment formula. Through Resolution 21-0085, CleanPowerSF rates formulaically adjusted, when PG&E rates changed to the lesser of no more than 5% higher than PG&E generation rates or rates that recover program costs. On September 28, 2021, the Commission approved a subsequent CleanPowerSF rate adjustment formula. Through Resolution 21-0152, CleanPowerSF rates formulaically adjusted when PG&E rates changed to the lesser of no more than 15% higher than PG&E generation rates or rates that recover program costs from November 1, 2021 to June 30, 2022.

CleanPowerSF revenues are adequate to support its own operations. CleanPowerSF is subject to Section 8B.125 of the City Charter, which requires an independent rate study to be performed at least once every five years, and the Commission sets rates and charges for the program. CleanPowerSF rates have been included in the 2022 Power Rates Study, which is completed in the spring of 2022 for rates to be effective July 1, 2023. The CleanPowerSF Rates Schedules are available at <http://cleanpowersf.org/residential> for residential customers and <http://cleanpowersf.org/commercial> for commercial customers.

Request for Information

This report is designed to provide our citizens, customers, investors, and creditors with an overview of Hetch Hetchy's finances and to demonstrate Hetch Hetchy's respective accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional information should be addressed to San Francisco Public Utilities Commission, Chief Financial Officer, 525 Golden Gate Avenue, 13th Floor, San Francisco, CA 94102.

This report is available at <https://sfpuc.org/about-us/reports/audited-financial-statements-reports>.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2022 and 2021

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2022 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2021 Total*
Assets								
Current assets:								
Cash and investments with City Treasury	\$ 94,190	189,641	56,234	340,065	89,373	190,719	90,838	370,930
Cash and investments outside City Treasury	1	16	—	17	1	611	—	612
Receivables:								
Charges for services (net of allowance for doubtful accounts from Hetchy Power of \$1,297 and CleanPowerSF of \$6,330 as of June 30, 2022; and Hetchy Power of \$1,258 and CleanPowerSF of \$5,485 as of June 30, 2021)	475	10,189	48,703	59,367	442	19,024	28,265	47,731
Due from other City departments, current portion	—	867	—	867	—	7,413	—	7,413
Due from other governments	512	298	—	810	579	267	—	846
Interest	40	201	61	302	21	125	55	201
Restricted interest and other receivables	—	4,303	—	4,303	—	11,800	—	11,800
Total current receivables	1,027	15,858	48,764	65,649	1,042	38,629	28,320	67,991
Prepaid charges, advances, and other receivables, current portion	216	1,911	10,550	12,677	402	2,666	2,184	5,252
Inventory	199	1,678	—	1,877	191	1,820	—	2,011
Restricted cash and investments outside City Treasury, current portion	—	5,228	—	5,228	—	153	—	153
Total current assets	95,633	214,332	115,548	425,513	91,009	234,598	121,342	446,949
Non-current assets:								
Net pension asset	13,912	17,004	1,833	32,749	—	—	—	—
Restricted cash and investments with City Treasury	—	—	—	—	6,990	5,241	—	12,231
Restricted cash and investments outside City Treasury, less current portion	—	8,824	—	8,824	—	3,690	—	3,690
Capital assets, not being depreciated and amortized	57,376	265,772	—	323,148	38,571	174,555	—	213,126
Capital assets, net of accumulated depreciation and amortization	143,631	319,864	—	463,495	138,910	317,501	—	456,411
Lease right-to-use assets, net of accumulated amortization	61	73	230	364	74	90	575	739
Prepaid charges, advances, and other receivables, less current portion	146	9,390	12,236	21,772	152	753	—	905
Due from other City departments, less current portion	—	10,937	—	10,937	—	4,993	—	4,993
Total non-current assets	215,126	631,864	14,299	861,289	184,697	506,823	575	692,095
Total assets	310,759	846,196	129,847	1,286,802	275,706	741,421	121,917	1,139,044
Deferred outflows of resources:								
Pensions	6,696	8,183	852	15,731	7,799	9,531	803	18,133
Other post-employment benefits	3,272	3,999	798	8,069	3,725	4,552	442	8,719
Total deferred outflows of resources	9,968	12,182	1,650	23,800	11,524	14,083	1,245	26,852
Liabilities								
Current liabilities:								
Accounts payable	8,454	16,668	23,526	48,648	4,262	22,909	15,859	43,030
Accrued payroll	1,098	2,684	373	4,155	1,042	2,596	291	3,929
Accrued vacation and sick leave, current portion	1,034	1,747	279	3,060	1,059	1,777	205	3,041
Accrued workers' compensation, current portion	215	400	—	615	197	378	—	575
Damage claims liability, current portion	228	358	15	601	218	409	6	633
Due to other City departments, current portion	—	380	—	380	—	369	—	369
Lease liability, current portion	3	3	232	238	16	19	345	380
Unearned revenues, refunds, and other, current portion	24	5,923	4,196	10,143	22	5,141	1,028	6,191
Bond, loan, and lease interest payable	—	1,327	—	1,327	—	459	1	460
Bonds, current portion	—	1,966	—	1,966	—	1,928	—	1,928
Certificates of participation, current portion	—	427	—	427	—	405	—	405
Commercial paper	—	40,019	—	40,019	—	114,671	—	114,671
Current liabilities payable from restricted assets	6,324	19,059	—	25,383	9,057	15,393	—	24,450
Total current liabilities	17,380	90,961	28,621	136,962	15,873	166,454	17,735	200,062
Long-term liabilities:								
Other post-employment benefits obligations	14,240	17,405	2,264	33,909	14,444	17,653	2,909	35,006
Net pension liability	—	—	—	—	26,645	32,566	3,008	62,219
Accrued vacation and sick leave, less current portion	1,135	1,850	267	3,252	1,126	1,840	195	3,161
Accrued workers' compensation, less current portion	1,013	1,850	—	2,863	923	1,740	—	2,663
Damage claims liability, less current portion	399	665	17	1,081	307	699	—	1,006
Bonds, less current portion	—	192,520	—	192,520	—	44,384	—	44,384
Lease liability, less current portion	59	72	—	131	62	75	232	369
Unearned revenues, refunds, and other, less current portion	110	804	9,000	9,914	116	852	9,000	9,968
Certificates of participation, less current portion	—	12,593	—	12,593	—	13,026	—	13,026
Total long-term liabilities	16,956	227,759	11,548	256,263	43,623	112,835	15,344	171,802
Total liabilities	34,336	318,720	40,169	393,225	59,496	279,289	33,079	371,864
Deferred inflows of resources:								
Related to pensions	34,477	42,138	5,414	82,029	988	1,207	1,093	3,288
Other post-employment benefits	2,734	3,342	1,594	7,670	2,085	2,548	1,913	6,546
Total deferred inflows of resources	37,211	45,480	7,008	89,699	3,073	3,755	3,006	9,834
Net position:								
Net investment in capital assets	201,007	352,162	—	553,169	177,481	323,066	—	500,547
Restricted for debt service	—	140	—	140	—	99	—	99
Unrestricted	48,173	141,876	84,320	274,369	47,180	149,295	87,077	283,552
Total net position	\$ 249,180	494,178	84,320	827,678	224,661	472,460	87,077	784,198

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2022 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2021 Total*
Operating revenues:								
Charges for services	\$ 49,200	173,105	257,893	480,198	46,979	136,247	207,698	390,924
Rents and concessions	112	137	—	249	111	136	—	247
Total operating revenues	<u>49,312</u>	<u>173,242</u>	<u>257,893</u>	<u>480,447</u>	<u>47,090</u>	<u>136,383</u>	<u>207,698</u>	<u>391,171</u>
Operating expenses:								
Personnel services	15,636	34,646	4,167	54,449	19,871	40,756	7,641	68,268
Contractual services	2,854	9,604	6,821	19,279	2,398	8,705	6,678	17,781
Transmission/distribution and other power costs	—	51,521	192	51,713	—	36,711	1,012	37,723
Purchased electricity	—	6,731	239,546	246,277	—	5,982	189,977	195,959
Materials and supplies	1,362	2,270	33	3,665	1,272	1,990	26	3,288
Depreciation and amortization	6,305	17,628	345	24,278	6,028	15,650	345	22,023
Services provided by other departments	3,129	6,253	3,621	13,003	2,517	6,137	3,928	12,582
General and administrative and other	23,017	27,694	7,393	58,104	18,433	29,709	3,104	51,246
Total operating expenses	<u>52,303</u>	<u>156,347</u>	<u>262,118</u>	<u>470,768</u>	<u>50,519</u>	<u>145,640</u>	<u>212,711</u>	<u>408,870</u>
Operating income (loss)	<u>(2,991)</u>	<u>16,895</u>	<u>(4,225)</u>	<u>9,679</u>	<u>(3,429)</u>	<u>(9,257)</u>	<u>(5,013)</u>	<u>(17,699)</u>
Non-operating revenues (expenses):								
Federal and state grants	450	4,924	2,424	7,798	1,349	1,483	—	2,832
Interest and investment (loss) income	(2,932)	(4,001)	(1,286)	(8,219)	(232)	24	51	(157)
Interest expenses	(1)	(5,624)	(5)	(5,630)	(2)	(1,972)	(26)	(2,000)
Amortization of premium, discount, and issuance costs	—	(192)	—	(192)	—	219	—	219
Net gain from sale of assets	7	9	—	16	—	—	—	—
Other non-operating revenues	22	10,830	335	11,187	3	17,790	927	18,720
Other non-operating expenses	(37)	(591)	—	(628)	(63)	(902)	—	(965)
Net non-operating revenues (loss)	<u>(2,491)</u>	<u>5,355</u>	<u>1,468</u>	<u>4,332</u>	<u>1,055</u>	<u>16,642</u>	<u>952</u>	<u>18,649</u>
Change in net position before transfers	<u>(5,482)</u>	<u>22,250</u>	<u>(2,757)</u>	<u>14,011</u>	<u>(2,374)</u>	<u>7,385</u>	<u>(4,061)</u>	<u>950</u>
Transfers from the City and County of San Francisco	30,001	—	—	30,001	16,000	—	—	16,000
Transfers to the City and County of San Francisco	—	(532)	—	(532)	—	(532)	—	(532)
Net transfers	<u>30,001</u>	<u>(532)</u>	<u>—</u>	<u>29,469</u>	<u>16,000</u>	<u>(532)</u>	<u>—</u>	<u>15,468</u>
Change in net position	<u>24,519</u>	<u>21,718</u>	<u>(2,757)</u>	<u>43,480</u>	<u>13,626</u>	<u>6,853</u>	<u>(4,061)</u>	<u>16,418</u>
Net position at beginning of year	<u>224,661</u>	<u>472,460</u>	<u>87,077</u>	<u>784,198</u>	<u>211,035</u>	<u>465,607</u>	<u>91,138</u>	<u>767,780</u>
Net position at end of year	<u>\$ 249,180</u>	<u>494,178</u>	<u>84,320</u>	<u>827,678</u>	<u>224,661</u>	<u>472,460</u>	<u>87,077</u>	<u>784,198</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2022 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Restated 2021 Total*
Cash flows from operating activities:								
Cash received from customers, including cash deposits	\$ 49,161	183,203	237,947	470,311	46,176	120,981	223,325	390,482
Cash received from tenants for rent	114	139	—	253	116	142	—	258
Cash received from miscellaneous revenues	22	7,237	335	7,594	3	13,427	927	14,357
Cash paid to employees for services	(20,430)	(40,448)	(5,828)	(66,706)	(19,597)	(40,236)	(5,344)	(65,177)
Cash paid to suppliers for goods and services	(25,726)	(107,969)	(268,958)	(402,653)	(20,950)	(81,722)	(211,735)	(314,407)
Cash paid for judgments and claims	(276)	(2,163)	(1,529)	(3,968)	(563)	(4,361)	(153)	(5,077)
Net cash provided by (used in) operating activities	<u>2,865</u>	<u>39,999</u>	<u>(38,033)</u>	<u>4,831</u>	<u>5,185</u>	<u>8,231</u>	<u>7,020</u>	<u>20,436</u>
Cash flows from non-capital and related financing activities:								
Cash received from grants	517	4,893	5,100	10,510	3,345	2,860	—	6,205
Cash received for license fees	—	3,333	—	3,333	—	3,151	—	3,151
Cash received from settlements	—	—	—	—	—	797	—	797
Cash paid for rebates, program incentives, and other	(37)	(591)	—	(628)	(63)	(902)	—	(965)
Cash paid for Hetchy Power loan interest	—	—	—	—	—	—	(235)	(235)
Transfers from the City and County of San Francisco	30,001	—	—	30,001	16,000	—	—	16,000
Transfers to the City and County of San Francisco	—	(532)	—	(532)	—	(532)	—	(532)
Net cash provided by non-capital financing activities	<u>30,481</u>	<u>7,103</u>	<u>5,100</u>	<u>42,684</u>	<u>19,282</u>	<u>5,374</u>	<u>(235)</u>	<u>24,421</u>
Cash flows from capital and related financing activities:								
Acquisition and construction of capital assets	(32,558)	(108,062)	—	(140,620)	(16,981)	(62,461)	—	(79,442)
Proceeds from sale of capital assets	7	9	—	16	—	—	—	—
Lease payments	(17)	(22)	(351)	(390)	(17)	(21)	(350)	(388)
Proceeds from bond issuance, net of premium, discount, refunding loss, and issuance costs	—	151,022	—	151,022	—	—	—	—
Principal paid on long-term debt	—	(2,333)	—	(2,333)	—	(3,674)	—	(3,674)
Proceeds from commercial paper borrowings	—	63,058	—	63,058	—	51,136	—	51,136
Principal paid on commercial paper	—	(137,710)	—	(137,710)	—	—	—	—
Interest paid on long-term debt	—	(4,695)	—	(4,695)	—	(2,970)	—	(2,970)
Interest paid on commercial paper borrowings	—	(59)	—	(59)	—	(132)	—	(132)
Issuance costs paid on long-term debt	—	(1,118)	—	(1,118)	—	—	—	—
Federal interest income subsidy	—	397	—	397	—	511	—	511
Net cash used in capital and related financing activities	<u>(32,568)</u>	<u>(39,513)</u>	<u>(351)</u>	<u>(72,432)</u>	<u>(16,998)</u>	<u>(17,611)</u>	<u>(350)</u>	<u>(34,959)</u>
Cash flows from investing activities:								
Interest Income	329	1,003	407	1,739	739	1,986	802	3,527
Proceeds from sale of investments outside City Treasury	—	7,118	—	7,118	—	3,968	—	3,968
Purchases of investments outside City Treasury	—	(7,118)	—	(7,118)	—	(3,968)	—	(3,968)
Net cash provided by investing activities	<u>329</u>	<u>1,003</u>	<u>407</u>	<u>1,739</u>	<u>739</u>	<u>1,986</u>	<u>802</u>	<u>3,527</u>
Increase (decrease) in cash and cash equivalents	<u>1,107</u>	<u>8,592</u>	<u>(32,877)</u>	<u>(23,178)</u>	<u>8,208</u>	<u>(2,020)</u>	<u>7,237</u>	<u>13,425</u>
Cash and cash equivalents:								
Beginning of year	96,276	200,265	90,764	387,305	88,068	202,285	83,527	373,880
End of year	<u>\$ 97,383</u>	<u>208,857</u>	<u>57,887</u>	<u>364,127</u>	<u>96,276</u>	<u>200,265</u>	<u>90,764</u>	<u>387,305</u>
Reconciliation of cash and cash equivalents to the statements of net position:								
Cash and investments with City Treasury:								
Unrestricted	\$ 94,190	189,641	56,234	340,065	89,373	190,719	90,838	370,930
Restricted	—	—	—	—	6,990	5,241	—	12,231
Add: Unrealized loss (gain) on investments with City Treasury	3,192	5,148	1,653	9,993	(88)	(149)	(74)	(311)
Cash and investments outside City Treasury:								
Unrestricted	1	16	—	17	1	611	—	612
Restricted	—	14,052	—	14,052	—	3,843	—	3,843
Cash and cash equivalents at end of year on statements of cash flows	<u>\$ 97,383</u>	<u>208,857</u>	<u>57,887</u>	<u>364,127</u>	<u>96,276</u>	<u>200,265</u>	<u>90,764</u>	<u>387,305</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>2022 Total</u>	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>Restated 2021 Total*</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	\$ (2,991)	16,895	(4,225)	9,679	(3,429)	(9,257)	(5,013)	(17,699)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	6,305	17,628	345	24,278	6,028	15,650	345	22,023
Miscellaneous revenues	22	7,237	335	7,594	3	13,427	927	14,357
Provision for uncollectible accounts	—	39	845	884	—	667	3,675	4,342
Write-off of capital assets	7	648	—	655	51	8,333	—	8,384
Changes in operating assets and liabilities:								
Receivables:								
Charges for services	(33)	8,796	(21,283)	(12,520)	(413)	(16,724)	2,772	(14,365)
Prepaid charges, advances, and other	192	(344)	(20,574)	(20,726)	114	(12,172)	576	(11,482)
Due from other City departments	—	531	—	531	104	2,437	—	2,541
Inventory	(8)	142	—	134	(4)	(211)	—	(215)
Accounts payable	4,192	(6,241)	7,667	5,618	3,304	8,724	(6,047)	5,981
Accrued payroll	56	88	82	226	154	298	91	543
Other post-employment benefits obligations	898	1,099	(1,320)	677	(2,409)	(2,945)	1,242	(4,112)
Pension obligations	(5,965)	(7,291)	(569)	(13,825)	1,972	2,411	855	5,238
Accrued vacation and sick leave	(16)	(20)	146	110	539	660	109	1,308
Accrued workers' compensation	108	132	—	240	(67)	(82)	—	(149)
Damage claims liability	102	(85)	26	43	(33)	(1,114)	(100)	(1,247)
Due to other City departments	—	11	—	11	(240)	(231)	(1,592)	(2,063)
Unearned revenues, refunds, and other liabilities	(4)	734	492	1,222	(489)	(1,640)	9,180	7,051
Total adjustments	5,856	23,104	(33,808)	(4,848)	8,614	17,488	12,033	38,135
Net cash provided by (used in) operating activities	\$ 2,865	39,999	(38,033)	4,831	5,185	8,231	7,020	20,436
Noncash transactions:								
Accrued capital asset costs	\$ 6,324	19,059	—	25,383	9,057	15,393	—	24,450
Receivables from Wastewater	—	629	—	629	—	739	—	739
Unrealized loss (gain) on investments	3,192	5,148	1,653	9,993	(88)	(149)	(74)	(311)

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

(1) Description of Reporting Entity

San Francisco Hetch Hetchy Water and Power (Hetch Hetchy or the Enterprise) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and was reported as part of Hetch Hetchy starting fiscal year 2016. Hetch Hetchy is a stand-alone enterprise comprised of three funds, Hetchy Power (the Power Enterprise), CleanPowerSF and Hetchy Water, the portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service. Hetch Hetchy accounts for the activities of Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity from that resource, as well as the City Power services including energy efficiency and renewable.

Approximately 69% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, Zuckerberg San Francisco General Hospital and Trauma Center, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 31% balance of electricity is sold to CleanPowerSF and the wholesale electric market. As a result of the 1913 Raker Act, energy produced above the City's municipal load is sold first to the Districts to cover their agricultural pumping and municipal load needs and any remaining energy is either sold to other municipalities and/or government agencies (not for resale) or sold into the CAISO. Hetch Hetchy operation is an integrated system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the CAISO, and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

Until August 1, 2008, the San Francisco Public Utilities Commission (SFPUC) consisted of five members, all appointed by the Mayor. Proposition E, a City and County of San Francisco Charter Section 4.112 amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the SFPUC, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the SFPUC, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for SFPUC members and requires them to meet the following qualifications:

- Seat 1 must have experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 must have experience in ratepayer or consumer advocacy.
- Seat 3 must have experience in project finance.
- Seat 4 must have expertise in water systems, power systems, or public utility management.
- Seat 5 is an at-large member.

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The SFPUC is a department of the City, and as such, the financial operations of Hetch Hetchy, Wastewater, and the Water Enterprises are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022 and 2021, and the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) *Basis of Accounting and Measurement Focus*

The accounts of Hetch Hetchy are organized on the basis of proprietary fund types and are included as enterprise funds of the City. The activities of Hetch Hetchy and each fund are accounted for with a separate set of self-balancing accounts that comprise Hetch Hetchy's and each fund's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial activities of Hetch Hetchy are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. GAAP. Under this method, all assets and liabilities associated with operations are included on the Statements of Net Position, revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Operating revenues are defined as charges to customers and rental income.

Hetch Hetchy applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

(b) *Cash and Cash Equivalents*

Hetch Hetchy considers its pooled deposits and investments held with the City Treasury to be demand deposits and, therefore, cash and cash equivalents for financial reporting. The City Treasury also holds non-pooled cash and investments for the Enterprise. Non-pooled restricted deposits and restricted deposits and investments held outside the City Treasury with original maturities of three months or less are considered to be cash equivalents.

(c) *Investments*

Money market funds are carried at cost, which approximates fair value. All other investments are stated at fair value based upon quoted market prices. Changes in fair value are recognized as investment gains or losses and are recorded as a component of non-operating revenues.

(d) *Inventory*

Inventory consists primarily of construction materials and maintenance supplies and is valued at average cost. Inventory is expensed as it is consumed.

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(e) ***Capital Assets***

Capital assets are defined as assets with an initial individual cost of more than \$5 and an estimated useful life in excess of one year. Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. All donated capital assets are valued at estimated fair value at the time of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 1 to 100 years for equipment and 1 to 200 years for buildings, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and depreciation or amortization is recorded in the year of disposal.

(f) ***Intangible Assets***

Under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, licenses, and permits. The accounting pronouncement also provides guidance on the capitalization of internally generated intangible assets, such as the development and installation of computer software by or on behalf of the reporting entity.

According to the standard, Hetch Hetchy is required to capitalize intangible assets with a useful life extending beyond one reporting period. Hetch Hetchy has established a capitalization threshold of \$100. GASB Statement No. 51 also requires amortization of intangible assets over the benefit period, except for certain assets having an indefinite useful life. Assets with an indefinite useful life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor and, therefore, are not amortized (see Note 4).

(g) ***Construction Work in Progress***

The cost of acquisition and construction of major plant and equipment is recorded as construction work in progress. Costs of construction projects that are discontinued are recorded as expenses in the year in which the decision is made to discontinue such projects.

(h) ***Capitalization of Interest***

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets (see Note 4). Per the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, no interest was capitalized to capital assets in fiscal year 2022.

(i) ***Bond Discount, Premium, and Issuance Costs***

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method.

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(j) *Accrued Vacation and Sick Leave*

Accrued vacation pay, which may be accumulated up to 10 weeks per employee, is charged to expense as earned. Sick leave earned subsequent to December 6, 1978 is non-vesting and may be accumulated up to six months per employee.

(k) *Workers' Compensation*

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 13(b)).

(l) *General Liability*

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 13(a)).

(m) *Arbitrage Rebate Payable*

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements of the Clean Renewable Energy Bonds (CREBs), the Qualified Energy Conservation Bonds (QECBs), and the New Clean Renewable Energy Bonds (NCREBs) stipulate that the first payment of excess investment earnings, if any, is required to be rebated to the federal government, no later than 60 days after the end of the fifth bond year of the agreement. Hetch Hetchy did not have any arbitrage liability as of June 30, 2022 and 2021.

(n) *Income Taxes*

As a department of a government agency, the Enterprise is exempt from both federal income taxes and California State franchise taxes.

(o) *Revenue Recognition*

Water and power revenues are based on water and power consumption and billing rates. Generally, customers are billed monthly. Revenues earned but unbilled are accrued as charges for services receivables on the Statements of Net Position. The unbilled amounts for the fiscal years ending June 30, 2022 and 2021 are as follows:

		Hetchy Water	Hetchy Power	CleanPowerSF	Total
2022	\$	—	3,806	21,878	25,684
2021		—	13,823	12,600	26,423

(p) *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the

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reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) ***Eliminations***

Eliminations for internal activities between the Hetchy Power and CleanPowerSF are made in the Statements of Net Position. There were no activities requiring eliminations for fiscal years ended June 30, 2022 and 2021.

(r) ***Accounting and Financial Reporting for Pollution Remediation Obligations***

According to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the Design Phase of projects under review by the project managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project. Examples of pollution may include, but are not limited to, asbestos or lead paint removal; leaking of sewage in underground pipes or neighboring areas; chemical spills; removal and disposal of known toxic waste; harmful biological and chemical pollution of water; or contamination of surrounding soils by underground storage tanks (see Note 14(d)).

(s) ***Leases***

Leases are defined as a contract that conveys control of the right to use another entity's underlying asset for a specified period. Hetch Hetchy is a lessee for various noncancellable leases of building and radio tower.

Short-term Leases – For leases with a maximum possible term of 12 months or less at commencement, the Enterprise recognizes lease revenue if the Enterprise is the lessor of the lease or lease expense if the Enterprise is the lessee of the lease, based on the provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Leases other than Short-term – For all other leases (i.e. those that are not short-term), Hetch Hetchy recognizes a lease liability and intangible right-to-use lease asset as lessee leases, or lease receivable and deferred inflow of resources as lessor leases.

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Measurement of Lease Amounts (Lessee) – Hetch Hetchy’s lease liability is recorded at the present value of future minimum lease payments as of the date of inception. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If Hetch Hetchy is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Measurement of Lease Amounts (Lessor) – Hetch Hetchy’s lease receivable is measured at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments collected. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term, plus lease payments received from the lease at or before the commencement of the lease term that related to future periods. Subsequently, the deferred inflow of resources as lease revenue on a straight-line basis over the lease term.

Key Estimates and Judgements – Key estimates and judgements include how Hetch Hetchy determines (a) the discount rate it uses to calculate the present value of the expected lease payments, (b) lease terms, (c) lease payments, and (d) materiality threshold for equipment.

- Hetch Hetchy generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate implicit in the lease. The City’s incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on City’s Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table. The City’s incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease payments under similar terms at the commencement or remeasurement date.
- The lease term includes the noncancellable period of the lease, plus any additional periods covered by either lessee or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the lessee and lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.
- Payments are evaluated by Hetch Hetchy to determine if they should be included in the measurement of the lease receivables or lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.
- Equipment and other leases have a capitalization threshold of \$100. 70% below market rent and/or ground leases are determined to be below market rent (BMR), excluded from lease capitalization.

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Remeasurement of Lease – Hetch Hetchy monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable or lease liability, the receivable or liability is remeasured and a corresponding adjustment is made to the deferred inflow of resources or lease asset, respectively.

Presentation in Statements of Net Position – Lease assets are reported with non-current assets, lease liabilities are reported with current and long-term liabilities in the Statements of Net Position.

(t) *Other Post-employment Benefits (OPEB)*

As prescribed under GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*, net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value (see Note 11(b)).

(u) *New Accounting Standards Adopted in Fiscal Year 2022*

1) In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 87 in fiscal year 2022 (see Note 9). As a result of adoption, the cumulative effect of applying this Statement is recorded as beginning balances for the following accounts as of July 1, 2020:

	<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>Total 2021</u>
Beginning balance:				
Right-to-use Assets	\$ 93	113	920	1,126
Lease Liability - Current	(29)	(35)	(371)	(435)
Lease Liability - Long Term	(64)	(78)	(549)	(691)
Activities:				
Accumulated Amortization	(19)	(23)	(345)	(387)
Accrued Interest Payable - Current	—	—	(1)	(1)
Lease Liability - Current	13	16	26	55
Lease Liability - Long Term	2	3	317	322
Expenses	4	4	3	11
Total:				
Right-to-use Assets	93	113	920	1,126
Accumulated Amortization	(19)	(23)	(345)	(387)
Accrued Interest Payable - Current	—	—	(1)	(1)
Lease Liability - Current	(16)	(19)	(345)	(380)
Lease Liability - Long Term	(62)	(75)	(232)	(369)
Expenses	4	4	3	11
Change to net position	\$ 4	4	3	11

2) In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of construction period. The new

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standard is effective for periods beginning after December 15, 2020. The Enterprise adopted the provisions of Statement No. 89 in fiscal year 2022.

- 3) In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB Statement No. 92 addresses practice issues that have been identified during implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 92 in fiscal year 2022, which did not have significant effect on its financial statements.
- 4) In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted the provisions of Statement No. 93 in fiscal year 2022, which did not have a significant effect on its financial statements.

(v) *GASB Statements Implemented in Fiscal Year 2021*

- 1) In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for state and local governments to identify fiduciary activities and how those activities should be reported. The new standard is effective for periods beginning after December 15, 2019. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.
- 2) In August 2018, the GASB issued Statement No. 90, *Accounting and Financial Reporting for Majority Equity Interests*. GASB Statement No. 90 provides clarification when a government should report a majority equity interest in a legally separate organization as either a component unit or an investment. The new standard is effective for periods beginning after December 15, 2019. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.
- 3) In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. GASB Statement No. 97 clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 and enhances the accounting and financial reporting of IRS Code section 457 plans that meet the definition of a pension plan. The new standard is effective for periods beginning after June 15, 2021. The Enterprise adopted early the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.
- 4) In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. GASB Statement No. 98 updates existing accounting standards by changing the name of the Comprehensive Annual Financial Report to the Annual Comprehensive Financial Report. The new standard is effective for periods ending after December 15, 2021. The Enterprise adopted the provisions of this Statement in fiscal year 2021, which did not have a significant effect on its financial statements.

(w) *Future Implementation of New Accounting Standards*

- 1) In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 enhances the compatibility and consistency of conduit debt obligation

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reporting and reporting of related transactions by State and local government issuers. The new standard is effective for periods beginning after December 15, 2021. The Enterprise will implement the provisions of Statement No. 91 in fiscal year 2023.

- 2) In March 2020, the GASB Issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The new standard is effective for periods beginning after June 15, 2022. The Enterprise will implement the provisions of Statement No. 94 in fiscal year 2023.
- 3) In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by a government. The new standard is effective for periods beginning after June 15, 2022. The Enterprise will implement the provisions of Statement No. 96 in fiscal year 2023.
- 4) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. This Statement enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The new standard is effective for periods beginning after June 15, 2023. The Enterprise will implement the provisions of Statement No. 99 in fiscal year 2024.
- 5) In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The new standard is effective for periods beginning after June 15, 2023. The Enterprise will implement the provisions of Statement No. 100 in fiscal year 2024.
- 6) In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The new standard is effective for periods beginning after December 15, 2023. The Enterprise will implement the provisions of Statement No. 101 in fiscal year 2025.

(x) *Reclassifications*

The Hetch Hetchy Enterprise has reclassified certain amounts relating to the prior period to conform to its current period presentation. These reclassifications had no effect on previously reported changes in net position.

(3) **Cash, Cash Equivalents, and Investments**

Hetch Hetchy's cash, cash equivalents, and investments with the City Treasury are invested in an unrated City pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy guidelines are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the

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portfolio, which may be invested in certain instruments with longer terms to maturity. The City Treasurer allocates income from the investment of pooled cash at month-end in proportion to Hetch Hetchy's average daily cash balances. The primary objectives of Hetch Hetchy's investment policy are consistent with the City's policy.

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The balances as of June 30, 2022 and 2021 were \$14,052 and \$3,843, respectively. The Enterprise held all investments in guaranteed investment contracts, treasury and government obligations, commercial paper, corporate bonds, and notes, as well as money market mutual funds consisting of treasury and government obligations. The balance as of June 30, 2022 included 2021 Series AB bond proceeds of \$10,346, 2015 Series A bond proceeds of \$2,194, certificates of participation proceeds of \$981, 2015 Series B bond proceeds of \$516, \$17 held at a commercial bank in a non-interest-bearing checking account that is covered by depository insurance, and commercial paper of \$15. The balance as of June 30, 2021 included 2015 Series A bond proceeds of \$2,193, certificates of participation proceeds of \$1,115, \$612 held at a commercial bank in a non-interest-bearing checking account that is covered by depository insurance, 2015 Series B bond proceeds of \$516, and commercial paper of \$19.

Hetch Hetchy did not have any unrealized gain and loss in the restricted cash and investments outside City Treasury as of June 30, 2022 and 2021.

Hetch Hetchy categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

Commercial paper is valued using a variety of techniques such as matrix pricing; market corroborated pricing inputs such as yield curve, indices, and other market related data. Commercial paper, money market investments, and cash and cash equivalents are exempt from fair value treatment under GASB Statement No. 72.

The following is a summary of the Hetch Hetchy restricted and unrestricted cash and investments outside City Treasury and the fair value hierarchy as of June 30, 2022 and 2021.

Hetch Hetchy Cash and Investments outside City Treasury							
Investments	Credit Ratings (S&P/Moody's)	June 30, 2022		Investments exempt from fair value	Fair Value Measurements Using		
		Maturities	Fair Value		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
Hetchy Water							
Cash and Cash Equivalents	N/A		\$ 1	1	-	-	-
Total Cash and Investments outside City Treasury			\$ 1	1	-	-	-
Hetchy Power							
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	\$ 14,037	14,037	-	-	-
Cash and Cash Equivalents	N/A		15	15	-	-	-
Total Restricted Cash and Investments outside City Treasury			\$ 14,052	14,052	-	-	-
Cash and Cash Equivalents	N/A		\$ 16	16	-	-	-
Total Cash and Investments outside City Treasury			\$ 16	16	-	-	-

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Hetch Hetchy Cash and Investments outside City Treasury					Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	June 30, 2021		Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
		Maturities	Fair Value				
Hetchy Water							
Cash and Cash Equivalents	N/A		\$ 1	1	-	-	-
Total Cash and Cash Equivalents outside City Treasury			\$ 1	1	-	-	-
Hetchy Power							
U.S. Treasury Money Market Funds	AAA-m/Aaa-mf	< 90 days	\$ 3,824	3,824	-	-	-
Cash and Cash Equivalents	N/A		19	19	-	-	-
Total Restricted Cash and Investments outside City Treasury			\$ 3,843	3,843	-	-	-
Cash and Cash Equivalents	N/A		\$ 611	611	-	-	-
Total Cash and Cash Equivalents outside City Treasury			\$ 611	611	-	-	-

For fiscal year 2022, proceeds from 2021 Series AB and 2015 Series AB bonds held as restricted cash and investments outside City Treasury in the amount of \$13,056 were invested in U.S. Treasury Money Market with maturity date less than 90 days. For fiscal year 2021, proceeds from 2015 Series A and B bonds held as restricted cash and investments outside City Treasury in the amount of \$2,709 were invested in U.S. Treasury Money Market with maturity date less than 90 days. The credit ratings of the U.S. Treasury Money Market as of June 30, 2022 and 2021 were “AAAm” by S&P and “Aaa-mf” by Moody’s.

Hetch Hetchy’s cash, cash equivalents, and investments are shown on the accompanying Statements of Net Position as of June 30, 2022 and 2021:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2022
Current assets:				
Cash and investments with City Treasury	\$ 94,190	189,641	56,234	340,065
Cash and investments outside City Treasury	1	16	-	17
Restricted cash and investments outside City Treasury	-	5,228	-	5,228
Non-current assets:				
Restricted cash and investments outside City Treasury	-	8,824	-	8,824
Total cash, cash equivalents, and investments	\$ 94,191	203,709	56,234	354,134
	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2021
Current assets:				
Cash and investments with City Treasury	\$ 89,373	190,719	90,838	370,930
Cash and investments outside City Treasury	1	611	-	612
Restricted cash and investments outside City Treasury	-	153	-	153
Non-current assets:				
Restricted cash and investments with City Treasury	6,990	5,241	-	12,231
Restricted cash and investments outside City Treasury	-	3,690	-	3,690
Total cash, cash equivalents, and investments	\$ 96,364	200,414	90,838	387,616

The following table shows the percentage distribution of the City’s pooled investment by maturity:

Fiscal years ended June 30	Investment maturities (in months)			
	Under 1	1 to less than 6	6 to less than 12	12 to 60
2022	20.2%	14.0%	14.9%	50.9%
2021	14.5%	27.6%	29.7%	28.2%

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

Capital assets with a useful life of 50 years or greater include buildings and structures, reservoirs, dams, power stations, certain water mains and pipelines, transmission and distribution systems, tunnels, and bridges.

a) Hetch Hetchy capital assets as of June 30, 2022 and 2021 consist of the following:

	2021	Increases	Decreases	2022
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 5,181	—	—	5,181
Intangible assets	1,437	—	—	1,437
Construction work in progress	206,508	140,513	(30,491) *	316,530
Total capital assets not being depreciated and amortized	<u>213,126</u>	<u>140,513</u>	<u>(30,491)</u>	<u>323,148</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	782,963	26,982	—	809,945
Intangible assets	45,715	—	—	45,715
Machinery and equipment	144,323	4,005	(87)	148,241
Total capital assets being depreciated and amortized	<u>973,001</u>	<u>30,987</u> *	<u>(87)</u>	<u>1,003,901</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(405,446)	(18,285)	—	(423,731)
Intangible assets	(22,220)	(460)	—	(22,680)
Machinery and equipment	(88,924)	(5,158)	87	(93,995)
Total accumulated depreciation and amortization	<u>(516,590)</u>	<u>(23,903)</u>	<u>87</u>	<u>(540,406)</u>
Total capital assets being depreciated and amortized, net	<u>456,411</u>	<u>7,084</u>	<u>—</u>	<u>463,495</u>
Total capital assets, net	<u>\$ 669,537</u>	<u>147,597</u>	<u>(30,491)</u>	<u>786,643</u>

* Decrease in construction in progress included \$655 in capital project write-offs, mainly related to Hope San Francisco Project in Sunnydale and Potrero. The remaining difference of \$1,151 was offset by direct additions to machinery and equipment.

	2020	Increases	Decreases	2021
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 5,181	—	—	5,181
Intangible assets	1,437	—	—	1,437
Construction work in progress	189,077	92,645	(75,214) *	206,508
Total capital assets not being depreciated and amortized	<u>195,695</u>	<u>92,645</u>	<u>(75,214)</u>	<u>213,126</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	723,182	59,781	—	782,963
Intangible assets	45,715	—	—	45,715
Machinery and equipment	136,573	7,750	—	144,323
Total capital assets being depreciated and amortized	<u>905,470</u>	<u>67,531</u> *	<u>—</u>	<u>973,001</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(389,294)	(16,152)	—	(405,446)
Intangible assets	(21,759)	(461)	—	(22,220)
Machinery and equipment	(83,901)	(5,023)	—	(88,924)
Total accumulated depreciation and amortization	<u>(494,954)</u>	<u>(21,636)</u>	<u>—</u>	<u>(516,590)</u>
Total capital assets being depreciated and amortized, net	<u>410,516</u>	<u>45,895</u>	<u>—</u>	<u>456,411</u>
Total capital assets, net	<u>\$ 606,211</u>	<u>138,540</u>	<u>(75,214)</u>	<u>669,537</u>

* Decrease in construction work in progress is greater than increase in capital assets being depreciated explained by \$8,384 in capital project write-offs, mainly related to Bay Corridor Project, Transmission and Distribution System Project, and Treasure Island Capital Improvement Project. The remaining difference of \$701 was offset by direct additions to machinery and equipment.

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Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

b) Hetchy Water capital assets as of June 30, 2022 and 2021 consist of the following:

	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 3,232	—	—	3,232
Intangible assets	6	—	—	6
Construction work in progress	35,333	29,654	(10,849) *	54,138
Total capital assets not being depreciated and amortized	<u>38,571</u>	<u>29,654</u>	<u>(10,849)</u>	<u>57,376</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	295,968	10,148	—	306,116
Intangible assets	20,522	—	—	20,522
Machinery and equipment	27,518	865	—	28,383
Total capital assets being depreciated and amortized	<u>344,008</u>	<u>11,013</u> *	<u>—</u>	<u>355,021</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(174,695)	(5,144)	—	(179,839)
Intangible assets	(9,947)	(207)	—	(10,154)
Machinery and equipment	(20,456)	(941)	—	(21,397)
Total accumulated depreciation and amortization	<u>(205,098)</u>	<u>(6,292)</u>	<u>—</u>	<u>(211,390)</u>
Total capital assets being depreciated and amortized, net	<u>138,910</u>	<u>4,721</u>	<u>—</u>	<u>143,631</u>
Total capital assets, net	<u>\$ 177,481</u>	<u>34,375</u>	<u>(10,849)</u>	<u>201,007</u>

* Decrease in construction in progress included \$7 in capital project write-offs, mainly related to Hetchy Water's share of road improvement projects. The remaining difference of \$171 was offset by direct additions to machinery and equipment.

	<u>2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>2021</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 3,232	—	—	3,232
Intangible assets	6	—	—	6
Construction work in progress	24,328	22,586	(11,581) *	35,333
Total capital assets not being depreciated and amortized	<u>27,566</u>	<u>22,586</u>	<u>(11,581)</u>	<u>38,571</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	284,480	11,488	—	295,968
Intangible assets	20,522	—	—	20,522
Machinery and equipment	27,303	215	—	27,518
Total capital assets being depreciated and amortized	<u>332,305</u>	<u>11,703</u> *	<u>—</u>	<u>344,008</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(169,874)	(4,821)	—	(174,695)
Intangible assets	(9,739)	(208)	—	(9,947)
Machinery and equipment	(19,476)	(980)	—	(20,456)
Total accumulated depreciation and amortization	<u>(199,089)</u>	<u>(6,009)</u>	<u>—</u>	<u>(205,098)</u>
Total capital assets being depreciated and amortized, net	<u>133,216</u>	<u>5,694</u>	<u>—</u>	<u>138,910</u>
Total capital assets, net	<u>\$ 160,782</u>	<u>28,280</u>	<u>(11,581)</u>	<u>177,481</u>

* Decrease in construction in progress included \$51 in capital project write-offs, mainly related to Hetchy Water's share of road improvement projects and 2018 Moccasin Strom project. The remaining difference of \$173 was offset by direct additions to machinery and equipment.

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(Dollars in thousands, unless otherwise stated)

c) Hetchy Power capital assets as of June 30, 2022 and 2021 consist of the following:

	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 1,949	—	—	1,949
Intangible assets	1,431	—	—	1,431
Construction work in progress	171,175	110,859	(19,642) *	262,392
Total capital assets not being depreciated and amortized	<u>174,555</u>	<u>110,859</u>	<u>(19,642)</u>	<u>265,772</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	486,995	16,834	—	503,829
Intangible assets	25,193	—	—	25,193
Machinery and equipment	116,805	3,140	(87)	119,858
Total capital assets being depreciated and amortized	<u>628,993</u>	<u>19,974</u> *	<u>(87)</u>	<u>648,880</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(230,751)	(13,141)	—	(243,892)
Intangible assets	(12,273)	(253)	—	(12,526)
Machinery and equipment	(68,468)	(4,217)	87	(72,598)
Total accumulated depreciation and amortization	<u>(311,492)</u>	<u>(17,611)</u>	<u>87</u>	<u>(329,016)</u>
Total capital assets being depreciated and amortized, net	<u>317,501</u>	<u>2,363</u>	<u>—</u>	<u>319,864</u>
Total capital assets, net	<u>\$ 492,056</u>	<u>113,222</u>	<u>(19,642)</u>	<u>585,636</u>

* Decrease in construction in progress included \$648 in capital project write-offs, mainly related to Hope San Francisco Project in Sunnydale and Potrero. The remaining difference of \$980 was offset by direct additions to machinery and equipment.

	<u>2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>2021</u>
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 1,949	—	—	1,949
Intangible assets	1,431	—	—	1,431
Construction work in progress	164,749	70,059	(63,633) *	171,175
Total capital assets not being depreciated and amortized	<u>168,129</u>	<u>70,059</u>	<u>(63,633)</u>	<u>174,555</u>
Capital assets being depreciated and amortized:				
Facilities and improvements	438,702	48,293	—	486,995
Intangible assets	25,193	—	—	25,193
Machinery and equipment	109,270	7,535	—	116,805
Total capital assets being depreciated and amortized	<u>573,165</u>	<u>55,828</u> *	<u>—</u>	<u>628,993</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements	(219,420)	(11,331)	—	(230,751)
Intangible assets	(12,020)	(253)	—	(12,273)
Machinery and equipment	(64,425)	(4,043)	—	(68,468)
Total accumulated depreciation and amortization	<u>(295,865)</u>	<u>(15,627)</u>	<u>—</u>	<u>(311,492)</u>
Total capital assets being depreciated and amortized, net	<u>277,300</u>	<u>40,201</u>	<u>—</u>	<u>317,501</u>
Total capital assets, net	<u>\$ 445,429</u>	<u>110,260</u>	<u>(63,633)</u>	<u>492,056</u>

* Decrease in construction work in progress is greater than increase in capital assets being depreciated explained by \$8,333 in capital project write-offs, mainly related to Bay Corridor Project, Transmission and Distribution System Project, and Treasure Island Capital Improvement Project. The remaining difference of \$528 was offset by direct additions to machinery and equipment.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*, requires that interest expense incurred during construction of assets be capitalized. Per the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, no interest was capitalized to construction in progress beginning in fiscal year 2022.

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(Dollars in thousands, unless otherwise stated)

Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2022 and 2021 are as follows:

Hetchy Power	2022	Restated 2021**
	Interest expensed	\$ 5,624
Interest included in construction work in progress	— *	1,083
Total interest incurred	\$ 5,624	3,055

*Per the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*.

**Restated per the implementation of GASB Statement No. 87, *Leases*.

(5) Restricted Assets

Pursuant to the Hetchy Power Trust Indenture (the "Indenture"), established in fiscal year 2015, net revenues of the Hetchy Power are pledged first to the 2015 Series AB Bonds and 2021 Series AB Bonds, and have a priority lien on the pledge of net revenues to the outstanding CREBs, QECCBs, and NCREBs (the "Subordinate Obligations"). The Lease/Purchase Agreements for the Subordinate Obligations pledge the net revenues of the Hetchy Power to these bonds, and such pledge is subordinate in lien to the net revenues pledge for the 2015 Series AB Bonds and 2021 Series AB Bonds (the "Bonds" or "Bond").

In the Indenture, the SFPUC covenants and agrees that it will pay into the Revenue Fund as received all Revenues of Hetchy Power and shall be used and applied, as provided by the Indenture, solely for the purposes of operating and maintaining Hetchy Power and paying all costs, charges, and expenses in connection therewith and for the purpose of making repairs, renewals, and replacements to Hetchy Power and constructing additions, betterments, and extensions thereto.

The Indenture provides that Revenues deposited in the Revenue Fund shall be disbursed in the following order of priority:

1. The payment of operation and maintenance expenses;
2. Any priority reconstruction and replacement fund deposits;
3. Deposit in the interest account of each Bond Fund;
4. Deposit in the bond retirement account of each Bond Fund;
5. Deposit in the reserve fund;
6. (i) Payment of principal and premium, if any, and interest on any Subordinate Obligations; (ii) deposit into a reserve fund securing any Subordinate Obligations; (iii) Swap Agreement payments pursuant to Swap Agreements entered into by the SFPUC with respect to any Subordinate Obligations; and (iv) payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal or interest on any Subordinate Obligations; in each case in any order of priority within this paragraph which may be hereafter established by the SFPUC resolution;
7. Any additional reconstruction and replacement fund deposits into the reconstruction and replacement fund;
8. Any necessary or desirable capital additions or improvements to the Hetchy Power;
9. Any payment under a Take-or-Pay Power Purchase Agreement that does not constitute an operation and maintenance expense;
10. Any payment under a Swap Agreement that does not constitute a Swap Agreement payment; and
11. Any other lawful purpose of the SFPUC.

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June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

In the Indenture, the SFPUC covenants and agrees to transfer to the Trustee for deposit in the Interest Account of each applicable Bond Fund all Refundable Credits received by the SFPUC.

In accordance with the Agreements, Hetch Hetchy maintains certain restricted cash and investment balances in trust.

(a) Hetchy Water has the following restricted assets held in trust as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	\$ —	6,990
Total restricted assets	\$ —	6,990

(b) Hetchy Power has the following restricted assets held in trust as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	\$ —	5,241
Cash and investments outside City Treasury:		
2009 Series C Certificates of participation - 525 Golden Gate	223	223
2009 Series D Certificates of participation - 525 Golden Gate	758	892
2015 Series A Revenue Bonds	2,194	2,193
2015 Series B Revenue Bonds	516	516
2021 Series AB Revenue Bonds	10,346	—
Commercial Paper	15	19
Total restricted cash and investments outside City Treasury	14,052	3,843
Interest and other receivables:		
Hetch Hetchy bond construction fund	4,303	11,800
Total restricted assets	\$ 18,355	20,884

Restricted assets listed above as cash and investments with City Treasury are held in fund accounts within the Hetch Hetchy Revenue Fund.

(6) Short-Term Debt

Effective March 2019, under Charter Sections 9.107(6) and 9.107(8), and 2018 Proposition A, the Commission and Board of Supervisors authorized the issuance of up to \$250,000 in commercial paper notes for the purpose of reconstructing, replacing, expanding, repairing or improving power facilities of Hetchy Power. Interest rates for the commercial paper ranged from 0.1% to 1.1% and 0.1% to 0.2% in fiscal years 2022 and 2021, respectively. The Enterprise had \$40,019 and \$114,671 commercial paper outstanding as of June 30, 2022 and 2021, respectively. The Enterprise had \$209,981 and \$135,329 in unused authorization as of June 30, 2022 and 2021, respectively.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, Significant Events of default as specified in the Reimbursement Agreements include 1) non-payment, 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements and 3) bankruptcy, which may result in all outstanding obligations to be immediately due and payable (unless waived by the respective Bank, if applicable); or issuance of a No-Issuance Notice, reduction in credit to outstanding amount plus interest coverage, and/or termination of the respective agreement. As of June 30, 2022, there were no such events described herein.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

a) Hetch Hetchy's long-term liability activities for the years ended June 30, 2022 and 2021 are as follows:

	Interest rate	Maturity (Calendar Year)	Restated 2021*	Additions	Reductions	2022	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 843	—	(422)	421	421
Qualified Energy Conservation Bonds	4.74	2027	3,687	—	(549)	3,138	555
New Clean Renewable Energy Bonds 2015	4.62	2032	1,779	—	(142)	1,637	146
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	4,550	—	(815)	3,735	850
2021 Series A Revenue Bonds	4.00 - 5.00	2052	—	74,280	—	74,280	—
2021 Series B Revenue Bonds	4.00 - 5.00	2052	—	49,720	—	49,720	—
Less issuance discount			(20)	—	14	(6)	(6)
Add issuance premiums			3,448	27,022	(934)	29,536	—
Total bonds payable			46,312	151,022	(2,848)	194,486	1,966
2009 Series C Certificates of participation (COPs) 2.00 - 5.00		2022	830	—	(405)	425	425
2009 Series C COPs issuance premiums			8	—	(6)	2	2
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			35,006	5,135	(6,232)	33,909	—
Net pension liability			62,219	—	(62,219)	—	—
Accrued vacation and sick leave			6,202	2,869	(2,759)	6,312	3,060
Accrued workers' compensation			3,238	555	(315)	3,478	615
Damage claims liability			1,639	3,840	(3,797)	1,682	601
Due to other City departments			369	11	—	380	380
Lease liability			749	—	(380)	369	238
Unearned revenues, refunds, and other			16,159	23,113	(19,215)	20,057	10,143
Total			\$ 185,324	186,545	(98,176)	273,693	17,430
	Interest rate	Maturity (Calendar Year)	2020	Additions	Reductions	Restated 2021*	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 1,265	—	(422)	843	422
Qualified Energy Conservation Bonds	4.74	2027	4,229	—	(542)	3,687	549
New Clean Renewable Energy Bonds 2012	4.74	2020	130	—	(130)	—	—
New Clean Renewable Energy Bonds 2015	4.62	2032	3,190	—	(1,411)	1,779	142
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	5,335	—	(785)	4,550	815
Less issuance discount			(34)	—	14	(20)	—
Add issuance premiums			3,668	—	(220)	3,448	—
Total bonds payable			49,808	—	(3,496)	46,312	1,928
2009 Series C Certificates of participation (COPs) 2.00 - 5.00		2022	1,214	—	(384)	830	405
2009 Series C COPs issuance premiums			21	—	(13)	8	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			38,530	5,646	(9,170)	35,006	—
Net pension liability			49,531	28,918	(16,230)	62,219	—
Accrued vacation and sick leave			4,894	2,932	(1,624)	6,202	3,041
Accrued workers' compensation			3,387	113	(262)	3,238	575
Damage claims liability			2,886	4,843	(6,090)	1,639	633
Due to other City departments			840	—	(471)	369	369
Lease liability			1,126	—	(377)	749	380
Unearned revenues, refunds, and other			9,117	28,750	(21,708)	16,159	6,191
Total			\$ 173,947	71,202	(59,825)	185,324	13,522

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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(Dollars in thousands, unless otherwise stated)

- b) Hetchy Water's long-term liability activities for the years ended June 30, 2022 and 2021 are as follows:

	Restated 2021*	Additions	Reductions	2022	Due within one year
Other post-employment benefits obligations	\$ 14,444	1,921	(2,125)	14,240	—
Net pension liability	26,645	—	(26,645)	—	—
Accrued vacation and sick leave	2,185	749	(765)	2,169	1,034
Accrued workers' compensation	1,120	233	(125)	1,228	215
Damage claims liability	525	253	(151)	627	228
Lease liability	78	—	(16)	62	3
Unearned revenues, refunds, and other	138	14	(18)	134	24
Total	<u>\$ 45,135</u>	<u>3,170</u>	<u>(29,845)</u>	<u>18,460</u>	<u>1,504</u>

	2020	Additions	Reductions	Restated 2021*	Due within one year
Other post-employment benefits obligations	\$ 16,350	1,818	(3,724)	14,444	—
Net pension liability	21,477	12,119	(6,951)	26,645	—
Accrued vacation and sick leave	1,646	1,034	(495)	2,185	1,059
Accrued workers' compensation	1,187	18	(85)	1,120	197
Damage claims liability	558	478	(511)	525	218
Due to other City departments	240	—	(240)	—	—
Lease liability	93	—	(15)	78	16
Unearned revenues, refunds, and other	627	629	(1,118)	138	22
Total	<u>\$ 42,178</u>	<u>16,096</u>	<u>(13,139)</u>	<u>45,135</u>	<u>1,512</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

- c) Hetchy Power's long-term liability activities for the years ended June 30, 2022 and 2021 are as follows:

	Interest rate	Maturity (Calendar Year)	Restated 2021*	Additions	Reductions	2022	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 843	—	(422)	421	421
Qualified Energy Conservation Bonds	4.74	2027	3,687	—	(549)	3,138	555
New Clean Renewable Energy Bonds 2015	4.62	2032	1,779	—	(142)	1,637	146
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	4,550	—	(815)	3,735	850
2021 Series A Revenue Bonds	4.00 - 5.00	2052	—	74,280	—	74,280	—
2021 Series B Revenue Bonds	4.00 - 5.00	2052	—	49,720	—	49,720	—
Less issuance discount			(20)	—	14	(6)	(6)
Add issuance premiums			3,448	27,022	(934)	29,536	—
Total bonds payable			<u>46,312</u>	<u>151,022</u>	<u>(2,848)</u>	<u>194,486</u>	<u>1,966</u>
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	830	—	(405)	425	425
2009 Series C COPs issuance premiums			8	—	(6)	2	2
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			17,653	2,347	(2,595)	17,405	—
Net pension liability			32,566	—	(32,566)	—	—
Accrued vacation and sick leave			3,617	1,856	(1,876)	3,597	1,747
Accrued workers' compensation			2,118	322	(190)	2,250	400
Damage claims liability			1,108	2,005	(2,090)	1,023	358
Due to other City departments			369	11	—	380	380
Lease liability			94	—	(19)	75	3
Unearned revenues, refunds, and other			5,993	8,410	(7,676)	6,727	5,923
Total			<u>\$ 123,261</u>	<u>165,973</u>	<u>(50,271)</u>	<u>238,963</u>	<u>11,204</u>

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	Interest rate	Maturity (Calendar Year)	2020	Additions	Reductions	Restated 2021*	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 1,265	—	(422)	843	422
Qualified Energy Conservation Bonds	4.74	2027	4,229	—	(542)	3,687	549
New Clean Renewable Energy Bonds 2012	4.74	2020	130	—	(130)	—	—
New Clean Renewable Energy Bonds 2015	4.62	2032	3,190	—	(1,411)	1,779	142
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	5,335	—	(785)	4,550	815
Less issuance discount			(34)	—	14	(20)	—
Add issuance premiums			3,668	—	(220)	3,448	—
Total bonds payable			<u>49,808</u>	<u>—</u>	<u>(3,496)</u>	<u>46,312</u>	<u>1,928</u>
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	1,214	—	(384)	830	405
2009 Series C COPs issuance premiums			21	—	(13)	8	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			19,983	2,223	(4,553)	17,653	—
Net pension liability			26,249	14,812	(8,495)	32,566	—
Accrued vacation and sick leave			2,957	1,763	(1,103)	3,617	1,777
Accrued workers' compensation			2,200	95	(177)	2,118	378
Damage claims liability			2,222	4,212	(5,326)	1,108	409
Due to other City departments			600	—	(231)	369	369
Lease liability			113	—	(19)	94	19
Unearned revenues, refunds, and other			7,642	8,560	(10,209)	5,993	5,141
Total			<u>\$ 125,602</u>	<u>31,665</u>	<u>(34,006)</u>	<u>123,261</u>	<u>10,426</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

- d) CleanPowerSF's long-term liability activities for the years ended June 30, 2022 and 2021 are as follows:

	Restated 2021*	Additions	Reductions	2022	Due within one year
Other post-employment benefits obligations	\$ 2,909	867	(1,512)	2,264	—
Net pension liability	3,008	—	(3,008)	—	—
Accrued vacation and sick leave	400	264	(118)	546	279
Damage claims liability	6	1,582	(1,556)	32	15
Lease liability	577	—	(345)	232	232
Unearned revenues, refunds, and other	10,028	14,689	(11,521)	13,196	4,196
Total	<u>\$ 16,928</u>	<u>17,402</u>	<u>(18,060)</u>	<u>16,270</u>	<u>4,722</u>

	2020	Additions	Reductions	Restated 2021*	Due within one year
Other post-employment benefits obligations	\$ 2,197	1,605	(893)	2,909	—
Net pension liability	1,805	1,987	(784)	3,008	—
Accrued vacation and sick leave	291	135	(26)	400	205
Damage claims liability	106	153	(253)	6	6
Lease liability	920	—	(343)	577	345
Unearned revenues, refunds, and other	848	19,561	(10,381)	10,028	1,028
Total	<u>\$ 6,167</u>	<u>23,441</u>	<u>(12,680)</u>	<u>16,928</u>	<u>1,584</u>

*Restated per Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

(a) **Clean Renewable Energy Bonds**

In November 2008, Hetchy Power issued \$6,325 of taxable CREBs to finance the installation of solar energy equipment on City-owned facilities, including Chinatown Branch Library, Maxine Hall Medical Center, City Distribution Division Warehouse, North Point Wastewater Plant, Chinatown Public Health Center, Municipal Transportation Agency Woods, and Municipal Transportation Agency Ways and Structures. The CREBs were non-rated and privately-placed with Banc of America Leasing. The net effective interest rate on the CREBs, after the federal tax subsidy, is 0% through 2022. Hetchy Power began making principal payments in the amount of \$422 on December 15, 2008 and will continue annual payments for 15 years until December 15, 2022. Funding for these payments will be guaranteed by net power revenues. Interest

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payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

The future annual debt service relating to the CREBs outstanding as of June 30, 2022 is as follows:

Fiscal year ending June 30:	<u>Principal</u>
2023	\$ 421
Less: Current portion	(421)
Less: Unamortized bond discount	(6)
Less: Current portion	6
Long-term portion as of June 30, 2022	<u>\$ —</u>

(b) *Qualified Energy Conservation Bonds*

In December 2011, Hetchy Power issued \$8,291 of taxable QECBs. The QECBs were issued to fund certain qualified green components for the SFPUC's 525 Golden Gate Headquarters project. The QECBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the QECBs, after the federal tax subsidy, is 1.2% through 2028.

The future annual debt service relating to the QECBs outstanding as of June 30, 2022 is as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest before subsidy</u>	<u>Federal interest subsidy*</u>	<u>Interest net of subsidy</u>
2023	\$ 555	142	(100)	42
2024	562	116	(82)	34
2025	569	89	(63)	26
2026	576	62	(44)	18
2027	582	35	(24)	11
2028	294	7	(4)	3
	<u>3,138</u>	<u>451</u>	<u>(317)</u>	<u>134</u>
Less: Current portion	(555)			
Long-term portion as of June 30, 2022	<u>\$ 2,583</u>			

* The SFPUC received an IRS notice dated June 2, 2022 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$19 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(c) *New Clean Renewable Energy Bonds 2012*

In April 2012, Hetchy Power issued \$6,600 of taxable NCREBs. The NCREBs were issued to fund certain qualified facilities that provide clean, renewable energy at Davies Symphony Hall, City Hall, and University Mound Reservoir. The NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the NCREBs, after the federal tax subsidy, is 1.5% through 2021. \$288 and \$2,523 of principal were prepaid in fiscal years 2017 and 2016, respectively. There was no prepayment thereafter. 2012 NCREBs have been fully repaid as of June 30, 2021.

(d) *New Clean Renewable Energy Bonds 2015*

In October 2015, Hetchy Power issued \$4,100 of taxable 2015 NCREBs. The 2015 NCREBs were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the 2015 NCREBs, after the federal tax subsidy, is 1.4% through 2033. \$0 and \$1,272 of principal were prepaid in fiscal years 2022 and 2021, respectively.

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The future annual debt service relating to the 2015 NCREBs outstanding as of June 30, 2022 is as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest before subsidy</u>	<u>Federal interest subsidy*</u>	<u>Interest net of subsidy</u>
2023	\$ 146	74	(49)	25
2024	148	67	(44)	23
2025	150	60	(40)	20
2026	152	53	(35)	18
2027	154	47	(31)	16
2028-2032	803	122	(81)	41
2033	84	2	(1)	1
	<u>1,637</u>	<u>425</u>	<u>(281)</u>	<u>144</u>
Less: Current portion	(146)			
Long-term portion as of June 30, 2022	\$ <u>1,491</u>			

* The SFPUC received an IRS notice dated June 2, 2022 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$17 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(e) Power Revenue Bonds 2015 Series A (Green) and Series B

In May 2015, Hetchy Power issued tax-exempt revenue bonds, 2015 Series A (Green) in the amount of \$32,025 with interest rates ranging from 4.0% to 5.0% and 2015 Series B in the amount of \$7,530 with interest rates ranging from 3.0% to 4.0%. Proceeds from the bonds were used to finance reconstruction or replacement of existing facilities of the SFPUC's Hetch Hetchy project, to fund capitalized interest on the 2015 Series AB Bonds, to fund a debt service reserve account for the 2015 Series AB Bonds, and to pay costs of issuance of the 2015 Series AB bonds. The bonds were rated "A+" and "AA-" by S&P and Fitch, respectively. Final maturity for 2015 Series AB are November 1, 2045 and November 1, 2026, respectively. The true interest cost is 3.95%. As of June 30, 2022 and 2021, the outstanding principal amounts were \$35,760 and \$36,575, respectively.

The future annual debt service relating to the 2015 Series AB Bonds outstanding as of June 30, 2022 are as follows:

Hetchy Power - Power Revenue Bonds 2015 Series A (Green)

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ —	1,593	1,593
2024	—	1,593	1,593
2025	—	1,593	1,593
2026	—	1,593	1,593
2027	830	1,576	2,406
2028-2032	5,645	7,121	12,766
2033-2037	7,205	5,522	12,727
2038-2042	9,190	3,482	12,672
2043-2046	9,155	943	10,098
	<u>32,025</u>	<u>25,016</u>	<u>57,041</u>
Add: Unamortized bond premium	3,119		
Long-term portion as of June 30, 2022	\$ <u>35,144</u>		

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Hetchy Power - Power Revenue Bonds 2015 Series B

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 850	124	974
2024	880	93	973
2025	910	62	972
2026	945	25	970
2027	150	3	153
	<u>3,735</u>	<u>307</u>	<u>4,042</u>
Less: Current portion	(850)		
Add: Unamortized bond premium	114		
Long-term portion as of June 30, 2022	\$ <u>2,999</u>		

(f) *Power Revenue Bonds 2021 Series A (Green) and Series B*

In December 2021, Hetchy Power issued tax-exempt revenue bonds, 2021 Series A (Green) in the amount of \$74,280 with interest rates ranging from 4.0% to 5.0% and 2021 Series B in the amount of \$49,720 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used to refinance a portion of the costs of various capital projects benefiting the Power Enterprise, to fund capitalized interest on the 2021 Series AB Bonds, and to pay costs of issuance. The bonds were rated “AA” and “AA-” by S&P and Fitch, respectively. Final maturity for 2021 Series AB are November 1, 2051. The true interest cost is 2.64%. As of June 30, 2022 the outstanding principal amount was \$124,000.

The future annual debt service relating to the 2021 Series AB Bonds outstanding as of June 30, 2022 are as follows:

Hetchy Power - Power Revenue Bonds 2021 Series A (Green)

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ —	3,085	3,085
2024	—	3,085	3,085
2025	1,385	3,050	4,435
2026	1,455	2,979	4,434
2027	1,530	2,905	4,435
2028-2032	8,875	13,294	22,169
2033-2037	11,025	11,140	22,165
2038-2042	13,470	8,698	22,168
2043-2047	16,450	5,716	22,166
2048-2052	20,090	2,073	22,163
	<u>74,280</u>	<u>56,025</u>	<u>130,305</u>
Add: Unamortized bond premium	15,933		
Long-term portion as of June 30, 2022	\$ <u>90,213</u>		

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Hetchy Power - Power Revenue Bonds 2021 Series B

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ —	2,045	2,045
2024	—	2,045	2,045
2025	585	2,030	2,615
2026	620	2,000	2,620
2027	650	1,969	2,619
2028-2032	3,765	9,308	13,073
2033-2037	4,755	8,363	13,118
2038-2042	5,945	7,295	13,240
2043-2047	9,900	5,920	15,820
2048-2052	23,500	2,426	25,926
	<u>49,720</u>	<u>43,401</u>	<u>93,121</u>
Add: Unamortized bond premium	10,370		
Long-term portion as of June 30, 2022	<u>\$ 60,090</u>		

(g) *Certificates of Participation Issued for the 525 Golden Gate Headquarters Building*

In October 2009, the City issued \$167,670 in certificates of participation to fund construction of the headquarters of the SFPUC at 525 Golden Gate Avenue. The 2009 Series C certificates were issued for \$38,120 and 2009 Series D for \$129,550 as “Build America Bonds” (BABs) on a taxable basis under the 2009 American Recovery and Reinvestment Act. The 2009 Series C certificates carry interest rates ranging from 2.0% to 5.0% and mature on November 1, 2022. The 2009 Series D certificates carry interest rates ranging from 6.4% to 6.5% and mature on November 1, 2041. After adjusting Series D for the federal interest subsidy, the true interest cost averages 3.4% and 4.3% for Series C and Series D certificates, respectively.

Under the terms of a Memorandum of Understanding between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee, the Bank of New York Mellon Trust Company, N.A., which was replaced by U.S. Bank in March 2014 under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City’s use under a project lease. The City is obligated under the project lease to pay base rental payments and other payments to the Trustee each year during the 32-year term of the project lease. The Commission makes annual base rental payments to the City for the building equal to annual debt service on the certificates. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. Hetchy Power’s share is reflected on the Hetchy Power fund statements. There are no events of default stated in this memorandum of understanding.

The Power, Water, and Wastewater Enterprises have ownership interest in the building equal to their projected usage of space as follows: Water (73%), Wastewater (15%), and Power (12%). Similarly, each Enterprise is responsible for a portion of the annual base rental payment based on their ownership percentages less contributed equity. The percentage share of base rental payments for the Enterprises is as follows: Water (71.4%), Wastewater (18.9%), and Power (9.7%). The future annual debt service relating to the certificates of participation 2009 Series C and D outstanding as of June 30, 2022 are as follow:

Hetchy Power - Certificates of Participation 2009 Series C (Tax Exempt)

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 425	10	435
Less: Current portion	(425)		
Add: Unamortized bond premium	2		
Less: Current portion	(2)		
Long-term portion as of June 30, 2022	<u>\$ —</u>		

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Hetchy Power - Certificates of Participation 2009 Series D (Taxable BABs)

Fiscal years ending June 30:	Principal	Interest	Federal	Interest
		subsidy	interest	net of
		before	subsidy*	subsidy
2023	\$ —	812	(268)	544
2024	445	798	(263)	535
2025	463	769	(254)	515
2026	483	739	(244)	495
2027	503	709	(234)	475
2028-2032	2,852	3,020	(997)	2,023
2033-2037	3,514	1,995	(658)	1,337
2038-2042	4,333	727	(240)	487
		<u>9,569</u>	<u>(3,158)</u>	<u>6,411</u>
Long-term portion as of June 30, 2022	\$ 12,593			

* The SFPUC received an IRS notice dated June 2, 2022 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$191 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2023.

(h) *Events of Default and Remedies*

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, significant events of default as specified in the Power Enterprise Indenture (applicable to Power Revenue Bonds and energy bonds) and the Equipment Lease/Purchase Agreement include 1) non-payment, 2) material breach of warranty, representation, or indenture covenants (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations), declare the principal and the interest accrued thereon to be due and payable immediately. As of June 30, 2022 and 2021, there were no such events described herein.

(8) Revenue Pledge

Hetchy Power has pledged future power revenues to repay the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs. Additionally, Hetchy Power has pledged future power revenues for 2015 Series AB and 2021 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. 2015 Series AB and 2021 Series AB power revenue bonds are payable through fiscal year 2046 and 2052, respectively, and are solely payable from net revenues of Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs.

The original amount of bonds issued, total principal and interest remaining, principal and interest paid during fiscal years 2022 and 2021, applicable net revenues, and funds available for debt service are as follows:

Hetchy Power	2022	2021
Bonds issued with revenue pledge	\$ 182,271	64,871
Principal and interest remaining due at the end of the year	290,581	71,082
Principal and interest paid during the year*	3,928	5,368
Net revenues for the year ended June 30	54,310	10,609
Funds available for debt service	98,625	34,178

*Per Indenture, debt service for coverage is calculated using the amount of principal and interest paid during the year for the 2015 Series AB and 2021 Series AB power revenue bonds net of capitalized interest if any, which have a senior lien on power enterprise revenues; principal and interest paid during the year for the 2015 Series AB and 2021 Series AB power revenue bonds was \$2,565, net of capitalized interest.

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(9) Leases

Hetch Hetchy has entered into long-term leases for office space and other equipment. The terms and conditions for these leases varies, which ranges between 1 to 75 years.

A summary of intangible right-to-use leases during the years ended June 30, 2022 and 2021 are as follows:

	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasurements</u>	<u>2022</u>
Hetch Hetchy					
Right-to-use assets: Building/facility equipment	\$ 1,126	–	(58)	–	1,068
Total lease assets	<u>1,126</u>	<u>–</u>	<u>(58)</u>	<u>–</u>	<u>1,068</u>
Less accumulated amortization for:					
Building/facility equipment	(387)	(375)	58	–	(704)
Total accumulated amortization	<u>(387)</u>	<u>(375)</u>	<u>58</u>	<u>–</u>	<u>(704)</u>
Total lease assets, net	<u>\$ 739</u>	<u>(375)</u>	<u>–</u>	<u>–</u>	<u>364</u>
Hetch Water					
Right-to-use assets: Building/facility equipment	\$ 93	–	(26)	–	67
Total lease assets	<u>93</u>	<u>–</u>	<u>(26)</u>	<u>–</u>	<u>67</u>
Less accumulated amortization for:					
Building/facility equipment	(19)	(13)	26	–	(6)
Total accumulated amortization	<u>(19)</u>	<u>(13)</u>	<u>26</u>	<u>–</u>	<u>(6)</u>
Total lease assets, net	<u>\$ 74</u>	<u>(13)</u>	<u>–</u>	<u>–</u>	<u>61</u>
Hetch Power					
Right-to-use assets: Building/facility equipment	\$ 113	–	(32)	–	81
Total lease assets	<u>113</u>	<u>–</u>	<u>(32)</u>	<u>–</u>	<u>81</u>
Less accumulated amortization for:					
Building/facility equipment	(23)	(17)	32	–	(8)
Total accumulated amortization	<u>(23)</u>	<u>(17)</u>	<u>32</u>	<u>–</u>	<u>(8)</u>
Total lease assets, net	<u>\$ 90</u>	<u>(17)</u>	<u>–</u>	<u>–</u>	<u>73</u>
CleanPowerSF					
Right-to-use assets: Building/facility equipment	\$ 920	–	–	–	920
Total lease assets	<u>920</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>920</u>
Less accumulated amortization for:					
Building/facility equipment	(345)	(345)	–	–	(690)
Total accumulated amortization	<u>(345)</u>	<u>(345)</u>	<u>–</u>	<u>–</u>	<u>(690)</u>
Total lease assets, net	<u>\$ 575</u>	<u>(345)</u>	<u>–</u>	<u>–</u>	<u>230</u>

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	<u>2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasurements</u>	<u>2021</u>
Hetch Hetchy					
Right-to-use assets: Building/facility equipment	\$ 1,126	—	—	—	1,126
Total lease assets	1,126	—	—	—	1,126
Less accumulated amortization for:					
Building/facility equipment	—	(387)	—	—	(387)
Total accumulated amortization	—	(387)	—	—	(387)
Total lease assets, net	\$ 1,126	(387)	—	—	739
Hetch Water					
Right-to-use assets: Building/facility equipment	\$ 93	—	—	—	93
Total lease assets	93	—	—	—	93
Less accumulated amortization for:					
Building/facility equipment	—	(19)	—	—	(19)
Total accumulated amortization	—	(19)	—	—	(19)
Total lease assets, net	\$ 93	(19)	—	—	74
Hetch Power					
Right-to-use assets: Building/facility equipment	\$ 113	—	—	—	113
Total lease assets	113	—	—	—	113
Less accumulated amortization for:					
Building/facility equipment	—	(23)	—	—	(23)
Total accumulated amortization	—	(23)	—	—	(23)
Total lease assets, net	\$ 113	(23)	—	—	90
CleanPowerSF					
Right-to-use assets: Building/facility equipment	\$ 920	—	—	—	920
Total lease assets	920	—	—	—	920
Less accumulated amortization for:					
Building/facility equipment	—	(345)	—	—	(345)
Total accumulated amortization	—	(345)	—	—	(345)
Total lease assets, net	\$ 920	(345)	—	—	575

A summary of changes in the related lease liabilities during the years ended June 30, 2022 and 2021 are as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Deductions</u>	<u>End of year</u>	<u>Due within one year</u>
Hetch Hetchy				
2022	\$ 749	(380)	369	238
2021	1,126	(377)	749	380
Hetchy Water				
2022	\$ 78	(16)	62	3
2021	93	(15)	78	16
Hetchy Power				
2022	\$ 94	(19)	75	3
2021	113	(19)	94	19
CleanPowerSF				
2022	\$ 577	(345)	232	232
2021	920	(343)	577	345

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Future annual lease payments as of the years ended June 30, 2022 and 2021 are as follows:

Hetchy Water

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 3	1	4
2024	3	1	4
2025	3	1	4
2026	3	1	4
2027	3	1	4
2028-2032	17	4	21
2033-2037	18	3	21
2038-2042	12	1	13
	<u>62</u>	<u>13</u>	<u>75</u>
Less: Current portion	<u>(3)</u>		
Long-term portion as of June 30, 2022	<u>\$ 59</u>		

Hetchy Power

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 3	2	5
2024	4	2	6
2025	4	1	5
2026	4	1	5
2027	4	1	5
2028-2032	20	5	25
2033-2037	23	3	26
2038-2042	13	1	14
	<u>75</u>	<u>16</u>	<u>91</u>
Less: Current portion	<u>(3)</u>		
Long-term portion as of June 30, 2022	<u>\$ 72</u>		

CleanPowerSF

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 232	1	233
Less: Current portion	<u>(232)</u>		
Long-term portion as of June 30, 2022	<u>\$ —</u>		

Hetchy Water

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 16	2	18
2023	3	1	4
2024	3	1	4
2025	3	1	4
2026	3	1	4
2027-2031	16	5	21
2032-2036	18	3	21
2037-2041	16	1	17
	<u>78</u>	<u>15</u>	<u>93</u>
Less: Current portion	<u>(16)</u>		
Long-term portion as of June 30, 2021	<u>\$ 62</u>		

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Hetchy Power

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 19	2	21
2023	3	2	5
2024	4	2	6
2025	4	1	5
2026	4	1	5
2027-2031	20	6	26
2032-2036	22	3	25
2037-2041	18	1	19
	<u>94</u>	<u>18</u>	<u>112</u>
Less: Current portion	(19)		
Long-term portion as of June 30, 2021	<u>\$ 75</u>		

CleanPowerSF

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 345	5	350
2023	232	1	233
	<u>577</u>	<u>6</u>	<u>583</u>
Less: Current portion	(345)		
Long-term portion as of June 30, 2021	<u>\$ 232</u>		

Variable Lease Payments – Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as lease expenses in the period in which the obligation for those payments is incurred.

Certain equipment or facility rental leases require Hetch Hetchy to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor; these amounts are generally determined annually. As of June 30, 2022, the amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were \$45 for Hetch Hetchy, of which \$1 for Hetchy Water, \$1 for Hetchy Power and \$43 for CleanPowerSF. As of June 30, 2021, the amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were \$24 for CleanPowerSF and \$0 for Hetchy Water and Hetchy Power.

(10) Other Non-Operating Revenues – Transbay Cable Construction and Licensing Fees

In 2007, the Board of Supervisors adopted the resolution to enter into two non-exclusive licenses with the Transbay Cable LLC (the Licensee) for the Transbay Cable Project. The Licensee proposed to install, operate, and maintain approximately 53 miles of high-voltage direct current transmission cable running from the City of Pittsburg to the City. The first license was a Construction License to install a 400 MW high-voltage transmission line, with a four-year term. The Licensee paid Hetchy Power \$3,500 in Renewable Energy, Transmission and Grid Reliability. The Construction licensing fees were fully spent as of 2020.

The second license is an operational license for operation of the transmission line with 25-year term and an option to renew for 10 years. The Licensee agrees to pay Hetchy Power in excess of \$20,000 in 10 separate installments of \$2,000 annually with adjustments for inflation, as the “San Francisco Electric Reliability Payment” to implement, advance, promote, or enhance policies and projects consistent with City Energy Policies. The project came on line November 29, 2010 and cumulative revenues of \$22,708 were recorded, with final payment of \$2,574 received in fiscal year 2020. Per

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agreement, the SFPUC shall consult with Departments of Environment and Public Health, as well as community members, including the Power Plant Task Force, in developing its proposals to the Board of Supervisors on how to spend the San Francisco Electricity Reliability Payment, and shall consider specifically renewable energy, conservation, and environmental health programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. The San Francisco Electricity Reliability Payment shall also be partly used for green jobs training and placement programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. As of June 30, 2022, cumulative expenses of \$11,136 have been incurred, with \$1,525 and \$1,254 in fiscal years 2022 and 2021, respectively.

(11) Employee Benefits

(a) Pension Plan

Retirement Plan – Hetch Hetchy participates in a cost-sharing multiple-employer defined benefit pension Plan (SFERS Plan). The SFERS Plan is administered by the San Francisco City and County Employees’ Retirement System (SFERS). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS Plan, and additions to/deductions from the SFERS Plan’s fiduciary net position have been determined on the same basis as they are reported by the SFERS Plan. Contributions are recognized in the period in which they are due pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the SFERS Plan reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

	Fiscal Year 2022	Fiscal Year 2021
Valuation Date (VD)	June 30, 2020 updated to June 30, 2021	June 30, 2019 updated to June 30, 2020
Measurement Date (MD)	June 30, 2021	June 30, 2020
Measurement Period (MP)	July 1, 2020 to June 30, 2021	July 1, 2019 to June 30, 2020

SFERS Plan – The City is an employer of the plan with a proportionate share of 94.64% as of June 30, 2021 (measurement date), 0.25% increased from prior year, and 94.39% as of June 30, 2020 (measurement date). Hetch Hetchy’s allocation percentage was determined based on its employer contributions divided by the City’s total employer contributions for fiscal years 2021 and 2020. Hetch Hetchy’s net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. Hetch Hetchy’s allocation of the City’s proportionate share was 1.33%, of which 0.57% for Hetchy Water, 0.69% for Hetchy Power, and 0.07% for CleanPowerSF as of June 30, 2021 (measurement date). Hetch Hetchy’s allocation of the City’s proportionate share was 1.22%, of which 0.52% for Hetchy Water, 0.64% for Hetchy Power, and 0.06% for CleanPowerSF as of June 30, 2020 (measurement date).

SFERS Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial

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statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website or by writing to the San Francisco Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

SFERS Benefits – The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual COLA after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The four main categories of Plan members are:

- a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- b) Sheriff's Department and Miscellaneous Safety members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
- c) Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- d) Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees' Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

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Funding and Contribution Policy

SFERS Plan – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 13.0% as a percentage of gross covered salary in fiscal years 2021 and 2020. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2020 actuarial report, the required employer contribution rate for fiscal year 2022 range from 19.91% to 24.41%. Based on the July 1, 2019 actuarial report, the required employer contribution rate for fiscal year 2021 range from 22.40% to 26.90%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2021 and 2020 (measurement years) were \$791,736 and \$701,307, respectively. Hetch Hetchy's allocation of employer contributions were \$9,644, of which \$4,130 for Hetchy Water, \$5,048 for Hetchy Power, and \$466 for CleanPowerSF for fiscal year 2021 (measurement period). Hetch Hetchy's allocation of employer contributions were \$8,243, of which \$3,574 for Hetchy Water, \$4,369 for Hetchy Power, and \$300 for CleanPowerSF for fiscal year 2020 (measurement period).

For the year ended June 30, 2022, the City's actuarial determined contribution was \$729,578. Hetch Hetchy's share was \$9,766, of which \$4,149 for Hetchy Water, \$5,071 for Hetchy Power, and \$546 for CleanPowerSF for fiscal year 2022 and will be recognized as a reduction of the net pension liability in the subsequent fiscal period.

Pension (Assets)/Liabilities, Pension Expenses, and Deferred Outflows and Inflows of Resources Related to Pensions

Fiscal Year 2022

As of June 30, 2022, the City reported net pension assets (NPA) for its proportionate share of the net pension asset of the SFERS Plan of \$2,446,564. The City's net pension asset for the Plan is measured as the proportionate share of the net pension asset. The net pension asset of the SFERS Plan is measured as of June 30, 2021 (measurement date), and the total pension (asset)/liability for the SFERS Plan used to calculate the net pension (asset)/liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The City's proportion of the net pension (asset)/liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension (asset)/liability for the SFERS Plan as of June 30, 2022 was (\$32,749), of which (\$13,912) for Hetchy Water, (\$17,004) for Hetchy Power, and (\$1,833) for CleanPowerSF.

For the year ended June 30, 2022, the City's recognized pension (benefit) was (\$922,979), which includes Retirement Benefit Plan pension expense of \$28,735. Hetch Hetchy's allocation of pension (benefit) including amortization of deferred outflows/inflows related pension items were (\$4,058), of which (\$1,816) for Hetchy Water, (\$2,220) for Hetchy Power, and (\$22) for CleanPowerSF. Pension (benefit) increased from the prior year, largely due to the amortization of deferrals.

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At June 30, 2022, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following source:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Fiscal Year 2022								
Pension contributions subsequent to the measurement date	\$ 4,149	5,071	546	9,766	-	-	-	-
Differences between expected and actual experience	1,278	1,561	168	3,007	45	56	6	107
Changes in assumptions	941	1,151	124	2,216	2,443	2,985	322	5,750
Net difference between projected and actual earnings on pension plan investments	-	-	-	-	30,223	36,939	3,982	71,144
Change in employer's proportion	328	400	14	742	1,766	2,158	1,104	5,028
Total	\$ 6,696	8,183	852	15,731	34,477	42,138	5,414	82,029

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2023	\$ (8,033)	(9,817)	(1,407)	(19,257)
2024	(7,470)	(9,130)	(1,278)	(17,878)
2025	(7,679)	(9,386)	(1,194)	(18,259)
2026	(8,748)	(10,693)	(1,229)	(20,670)
	<u>\$ (31,930)</u>	<u>(39,026)</u>	<u>(5,108)</u>	<u>(76,064)</u>

Fiscal Year 2021

As of June 30, 2021, the City reported net pension liabilities (NPL) for its proportionate share of the net pension liability of the SFERS Plan of \$5,107,270. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the SFERS Plan is measured as of June 30, 2020 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2021 was \$62,219, of which \$26,645 for Hetchy Water, \$32,566 for Hetchy Power, and \$3,008 for CleanPowerSF.

For the year ended June 30, 2021, the City's recognized pension expense was \$962,576 (which includes Retirement Benefit Plan pension expense of \$25,243), including amortization of deferred outflows/inflows related pension items. Hetch Hetchy's allocation of pension expense including amortization of deferred outflows/inflows related pension items were \$14,883, of which \$6,103 for Hetchy Water, \$7,459 for Hetchy Power, and \$1,321 for CleanPowerSF. Pension expense increased from the prior year, largely due to the amortization of deferrals.

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At June 30, 2021, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions were the following:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Fiscal Year 2021								
Pension contributions subsequent to the measurement date	\$ 4,130	5,048	466	9,644	-	-	-	-
Differences between expected and actual experience	905	1,106	102	2,113	83	102	9	194
Changes in assumptions	1,463	1,788	165	3,416	462	564	52	1,078
Net difference between projected and actual earnings on pension plan investments	558	682	63	1,303	-	-	-	-
Change in employer's proportion	743	907	7	1,657	443	541	1,032	2,016
Total	\$ 7,799	9,531	803	18,133	988	1,207	1,093	3,288

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2022	\$ (115)	(141)	(472)	(728)
2023	665	812	(195)	1,282
2024	1,160	1,418	(90)	2,488
2025	971	1,187	1	2,159
	\$ 2,681	3,276	(756)	5,201

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Actuarial Assumptions

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for SFERS Plan as of June 30, 2021 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2020 actuarial valuation. Refer to the July 1, 2020 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

<u>Key Actuarial Assumptions</u>	<u>SFERS Plan</u>				
	Valuation Date	June 30, 2020 updated to June 30, 2021			
Measurement Date	June 30, 2021				
Actuarial Cost Method	Entry-Age Normal Cost				
Expected Rate of Return	7.40% net of investment expenses				
Municipal Bond Yield	2.21% as of June 30, 2020				
	2.16% as of June 30, 2021				
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021				
Inflation	2.50%				
Projected Salary Increases	3.25% plus merit component based on employee classification and years of service				
Discount Rate	7.40% as of June 30, 2020				
	7.40% as of June 30, 2021				
Administrative Expenses	0.60% of payroll as of June 30, 2020				
	0.60% of payroll as of June 30, 2021				
Basic COLA		Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
	June 30, 2020	2.00%	2.50%	3.10%	4.20%
	June 30, 2021	2.00%	1.90%	2.50%	3.60%

Mortality rates for health Miscellaneous members were based upon adjusted PubG-2010 Employee and Retiree tables for non-annuitants and retirees, respectively. Mortality rates were then projected generationally from the base year using the MP-2019 projection scale.

The actuarial assumptions used at the June 30, 2021 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2020.

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Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for SFERS Plan as of June 30, 2020 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2019 actuarial valuation. Refer to the July 1, 2019 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

Key Actuarial Assumptions	SFERS Plan			
Valuation Date	June 30, 2019 updated to June 30, 2020			
Measurement Date	June 30, 2020			
Actuarial Cost Method	Entry-Age Normal Cost			
Expected Rate of Return	7.40% net of pension plan investment, including inflation			
Municipal Bond Yield	3.50% as of June 30, 2019			
	2.21% as of June 30, 2020			
	Bond Buyer 20-Bond GO Index, June 27, 2019 and June 25, 2020			
Inflation	2.75%			
Projected salary increases	3.50% plus merit component based employee classification and years of service			
Discount Rate	7.40% as of June 30, 2019			
	7.40% as of June 30, 2020			
Administrative Expenses	0.60% of payroll as of June 30, 2019			
	0.60% of payroll as of June 30, 2020			
	Old Miscellaneous and	Old Police & Fire	Old Police & Fire	Old Police & Fire
	all New Plans	Pre 7/1/75	Charters A8.595 and	Charters A8.559 and
Basic COLA			A8.596	A8.585
	June 30, 2019	2.00%	2.50%	3.10%
	June 30, 2020	2.00%	2.50%	3.10%
			4.20%	4.20%

For healthy annuitants, the sex distinct 2009 CalPERS healthy annuitant mortality table, adjusted 1.014 for females and 0.909 for males. For active members, the sex distinct 2009 CalPERS employee mortality tables, adjusted 0.918 for females and 0.948 for males. Rates are projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

The actuarial assumptions used at the June 30, 2020 measurement date was based upon the result of a demographic experience study for the period July 1, 2009 through June 30, 2014 and an economic experience study as of July 1, 2019.

Discount Rate

Fiscal Year 2022

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of June 30, 2021 (measurement date) and June 30, 2020 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2021 was 7.40%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2020 actuarial valuation. That policy includes contributions equal to the employer portion

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of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 1997 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2021 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2021. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

<u>Fiscal years</u>	<u>96 - Prop C</u>	<u>Before 11/6/96 or After Prop C</u>
2023	0.75 %	0.70 %
2025	0.75	0.70
2027	0.75	0.60
2029	0.75	0.60
2031	0.75	0.60
2033+	0.75	0.50

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

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Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.16% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2021 is 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	37.0 %	4.2 %
Private Equity	23.0	7.9
Private Credit	10.0	5.1
Real Assets	10.0	5.1
Hedge Funds/Absolute Returns	10.0	2.9
Treasuries	8.0	0.0
Liquid Credit	5.0	2.3
Leverage	(3.0)	0.1
Total	<u>100.0</u>	

Fiscal Year 2021

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.40% as of June 30, 2020 (measurement date) and June 30, 2019 (measurement date).

The discount rate used to measure the Total Pension Liability as of the June 30, 2020 was 7.40%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2019 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age, normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years.

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For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll, so payments increase 3.50% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 1997 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2020 for the probability and amount of Supplemental COLA for each future year. There were no excess earnings during the fiscal year ending June 30, 2020; consequently, no Supplemental COLA will be paid effective July 1, 2020.

The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

<u>Fiscal years</u>	<u>96 - Prop C</u>	<u>Before 11/6/96 or After Prop C</u>
2022	0.75 %	0.19 %
2024	0.75	0.27
2026	0.75	0.30
2028	0.75	0.33
2030	0.75	0.35
2032	0.75	0.37
2034+	0.75	0.38

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.21% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2020 is 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. It was set by the Retirement Board after consideration of both expected future returns and historical returns

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experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	31.0 %	4.9 %
Private Equity	18.0	7.9
Real Assets	17.0	5.7
Hedge Funds/Absolute Returns	15.0	3.0
Private Credit	10.0	4.8
Treasuries	6.0	(0.5)
Liquid Credit	3.0	2.7
Total	<u>100.0</u>	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Hetch Hetchy's allocation of the employer's proportionate share of the net pension liability/asset for the SFERS Plan, calculated using the discount rate, as well as what Hetch Hetchy's allocation of the employer's proportionate share of the net pension (asset)/liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Fiscal Year 2022	Hetchy		CleanPowerSF	Total
	Water	Power		
1% Decrease Share of NPL @ 6.40%	\$ 9,272	11,333	1,221	21,826
Share of NPA @ 7.40%	(13,912)	(17,004)	(1,833)	(32,749)
1% Increase Share of NPA @ 8.40%	(33,053)	(40,398)	(4,354)	(77,805)

Fiscal Year 2021	Hetchy		CleanPowerSF	Total
	Water	Power		
1% Decrease Share of NPL @ 6.40%	\$ 47,111	57,580	5,318	110,009
Share of NPL @ 7.40%	26,645	32,566	3,008	62,219
1% Increase Share of NPL @ 8.40%	9,736	11,899	1,099	22,734

(b) *Other Post-Employment Benefits*

Hetch Hetchy participates in a single-employer defined benefit other post-employment plan (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System. It provides post-employment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other post-employment benefit plan.

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GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Health Service System Retiree Plan - Single-Employer		
	Fiscal Year 2022	Fiscal Year 2021
Valuation Date (VD)	June 30, 2020 updated to June 30, 2021	June 30, 2020
Measurement Date (MD)	June 30, 2021	June 30, 2020
Measurement Period (MP)	July 1, 2020 to June 30, 2021	July 1, 2019 to June 30, 2020

Hetch Hetchy’s proportionate share percentage of the Plan was determined based on its percentage of citywide “pay-as-you-go” contributions for the years ended June 30, 2021 and June 30, 2020. Hetch Hetchy’s net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on its allocated percentage. Hetch Hetchy’s proportionate share of the City’s OPEB elements was 0.92%, of which 0.39% for Hetchy Water, 0.47% for Hetchy Power, and 0.06% for CleanPowerSF as of June 30, 2021 (measurement date). Hetch Hetchy’s proportionate share of the City’s OPEB elements was 0.92%, of which 0.38% for Hetchy Water, 0.46% for Hetchy Power, and 0.08% for CleanPowerSF as of June 30, 2020 (measurement date).

Benefits

Permanent full-time and elected employees are eligible to retire and receive post-retirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco’s Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service ¹ Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement ²		Any age with 10 years of credited service
Terminated Vested		5 years of credited service at separation

¹ Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012.

² No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses/domestic partners of those killed in the line of duty.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured) and UHC Medicare Advantage (fully-insured)
	HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental, DeltaCare USA and United Healthcare Dental
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

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Contributions

Benefits provided under the Plan are currently paid through “pay-as-you-go” funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City’s GASB Actuary has determined that the City’s portion of the Trust Fund is fully funded. At that time, the City’s 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the Trust Fund. Beginning on July 1st of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1st of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City’s Actuary has determined that the City’s portion of the Trust Fund is fully funded, the City’s 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation. Additional or existing contribution requirements may be established or modified by amendment to the City’s Charter.

Fiscal Year 2022

For the fiscal year ended June 30, 2022, the City’s funding was based on “pay as you go” plus a contribution of \$41,841 to the Retiree Healthcare Trust Fund. The “pay as you go” portion paid by the City was \$211,025 for a total contribution of \$252,866 for the fiscal year ended June 30, 2022. Hetch Hetchy’s proportionate share of the City’s contributions for fiscal year 2022 were \$2,322: \$975 for Hetchy Water, \$1,192 for Hetchy Power, and \$155 for CleanPowerSF for fiscal year 2022 and will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period.

Fiscal Year 2021

For the fiscal year ended June 30, 2021, the City’s funding was based on “pay-as-you-go” plus a contribution of \$39,555 to the Retiree Healthcare Trust Fund. The “pay-as-you-go” portion paid by the City was \$206,439 for a total contribution of \$245,994 for the fiscal year ended June 30, 2021. Hetch Hetchy’s proportionate share of the City’s contributions for fiscal year 2021 were \$2,252: \$929 for Hetchy Water, \$1,136 for Hetchy Power, and \$187 for CleanPowerSF.

OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

Fiscal Year 2022

As of June 30, 2022, the City reported net OPEB liabilities related to the Plan of \$3,691,122. Hetch Hetchy’s proportionate share of the City’s net OPEB liability as of June 30, 2022 was \$33,909: \$14,240 for Hetchy Water, \$17,405 for Hetchy Power, and \$2,264 for CleanPowerSF.

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For the year ended June 30, 2022, the City's recognized OPEB expense was \$272,001. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's OPEB expense was \$3,002: \$1,874 for Hetchy Water and \$2,291 for Hetchy Power, offset by a decrease of \$1,163 expense for CleanPowerSF.

As of June 30, 2022, Hetch Hetchy reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	\$ 975	1,192	155	2,322	-	-	-	-
Differences between expected and actual experience	428	523	68	1,019	2,193	2,680	348	5,221
Changes in assumptions	602	735	96	1,433	-	-	-	-
Net difference between projected and actual earnings on plan investments	-	-	-	-	269	329	43	641
Change in proportion	1,267	1,549	479	3,295	272	333	1,203	1,808
Total	\$ 3,272	3,999	798	8,069	2,734	3,342	1,594	7,670

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

Fiscal years	Deferred Outflows/(Inflows) of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2023	\$ (105)	(128)	(264)	(497)
2024	(106)	(130)	(264)	(500)
2025	(103)	(125)	(264)	(492)
2026	46	57	(167)	(64)
2027	(43)	(53)	(59)	(155)
Thereafter	(126)	(156)	67	(215)
Total	\$ (437)	(535)	(951)	(1,923)

Fiscal Year 2021

As of June 30, 2021, the City reported net OPEB liabilities related to the Plan of \$3,823,334. Hetch Hetchy's proportionate share of the City's net OPEB liability as of June 30, 2021 was \$35,006: \$14,444 for Hetchy Water, \$17,653 for Hetchy Power, and \$2,909 for CleanPowerSF.

For the year ended June 30, 2021, the City's recognized OPEB expense was \$320,684. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's reduction of OPEB expense was \$1,859: \$1,480 for Hetchy Water and \$1,809 for Hetchy Power, offset by an increase of \$1,430 expense for CleanPowerSF.

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As of June 30, 2021, Hetch Hetchy reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	\$ 929	1,136	187	2,252	-	-	-	-
Differences between expected and actual experience	524	640	106	1,270	2,070	2,529	417	5,016
Changes in assumptions	731	894	147	1,772	-	-	-	-
Net difference between projected and actual earnings on plan investments	9	12	2	23	-	-	-	-
Change in proportion	1,532	1,870	-	3,402	15	19	1,496	1,530
Total	<u>\$ 3,725</u>	<u>4,552</u>	<u>442</u>	<u>8,719</u>	<u>2,085</u>	<u>2,548</u>	<u>1,913</u>	<u>6,546</u>

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

Fiscal years	Deferred Outflows/(Inflows) of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2022	\$ 90	110	(328)	(128)
2023	96	117	(326)	(113)
2024	94	116	(326)	(116)
2025	99	120	(326)	(107)
2026	245	299	(222)	322
Thereafter	87	106	(130)	63
Total	<u>\$ 711</u>	<u>868</u>	<u>(1,658)</u>	<u>(79)</u>

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Actuarial Assumptions

Fiscal Year 2022

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2021 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2020, updated to June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 6.74% trending down to ultimate rate of 4.04% in 2075 Medicare trend starts at 7.24% trending down to ultimate rate of 4.04% in 2075 10-County average trend starts at 5.50% trending down to ultimate rate of 4.04% in 2075 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

Non-Annuitants

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	0.834	0.866
Safety	PubS-2010 Employee	1.011	0.979

Healthy Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubS-2010 Employee	0.947	1.044

Disabled Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.045	1.003
Safety	PubS-2010 Employee	0.916	0.995

Beneficiaries

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

The mortality rates in the base tables are projected generationally from the base year using the MP-2019 projection scale.

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Fiscal Year 2021

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2020 (measurement year) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 4.00% in 2022, 7.00% in 2023, trending down to ultimate rate of 4.04% in 2075 Medicare trend starts at 1.00% in 2022, 7.50% in 2023, trending down to ultimate rate of 4.04% in 2075 10-County average trend starts at 4.5% in 2022, 5.50% in 2023, trending down to ultimate rate of 4.04% in 2075 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019. Non-Annuitants

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	0.834	0.866
Safety	PubS-2010 Employee	1.011	0.979

Healthy Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubS-2010 Employee	0.947	1.044

Disabled Retirees

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.045	1.003
Safety	PubS-2010 Employee	0.916	0.995

Beneficiaries

	Published Table	Adjustment Factor	
		Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

The mortality rates in the base tables are projected generationally from the base year using the MP-2019 projection scale.

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Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what its allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate as of June 30, 2022 and June 30, 2021:

		<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>2022</u>
1% Decrease	\$	12,121	14,814	1,927	28,862
Healthcare Trend		14,240	17,405	2,264	33,909
1% Increase		16,882	20,634	2,685	40,201

		<u>Hetchy Water</u>	<u>Hetchy Power</u>	<u>CleanPowerSF</u>	<u>2021</u>
1% Decrease	\$	12,488	15,264	2,515	30,267
Healthcare Trend		14,444	17,653	2,909	35,006
1% Increase		16,992	20,767	3,422	41,181

Discount Rate

Fiscal Year 2022

The discount rate used to measure the Total OPEB Liability as of June 30, 2021 was 7.00%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.00% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation.

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Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0 %	8.2 %
U.S. Small Cap	3.0	9.5
Developed Market Equity (non-U.S.)	15.0	8.9
Emerging Market Equity	13.0	11.0
Credit		
Bank Loans	3.0	4.4
High Yield Bonds	3.0	4.4
Emerging Market Bonds	3.0	4.3
Rate Securities		
Investment Grade Bonds	9.0	1.9
Long-term Government Bonds	4.0	3.2
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0	1.5
Private Markets		
Private Equity	5.0	13.0
Core Private Real Estate	5.0	6.2
Risk Mitigating Strategies		
Global Macro	5.0	4.4
Total	100.0 %	

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what Hetch Hetchy's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease 6.00% \$	16,652	20,352	2,648	39,652
Discount Rate 7.00%	14,240	17,405	2,264	33,909
1% Increase 8.00%	12,271	14,997	1,951	29,219

Fiscal Year 2021

The discount rate used to measure the total OPEB liability as of June 30, 2020 was 7.00%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.00% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation.

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Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0 %	8.4 %
U.S. Small Cap	3.0	9.8
Developed Market Equity (non-U.S.)	15.0	9.6
Emerging Market Equity	13.0	11.7
Credit		
Bank Loans	3.0	4.9
High Yield Bonds	3.0	4.9
Emerging Market Bonds	3.0	4.8
Rate Securities		
Investment Grade Bonds	9.0	2.2
Long-term Government Bonds	4.0	3.1
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0	1.9
Private Markets		
Private Equity	5.0	12.5
Core Private Real Estate	5.0	6.4
Risk Mitigating Strategies		
Global Macro	5.0	4.1
Total	<u>100.0 %</u>	

The asset allocation targets summarized above have a 20-year return estimate of 6.90%, which was weighted against a 10-year model estimating a 6.93% return, resulting in the ultimate long-term expected rate of return of 7.00%.

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what Hetch Hetchy's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease 6.00%	\$ 16,761	20,486	3,376	40,623
Discount Rate 7.00%	14,444	17,653	2,909	35,006
1% Increase 8.00%	12,551	15,341	2,528	30,420

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City's post-employment health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

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(12) Related Parties

(a) *Hetch Hetchy*

Various common costs incurred by the SFPUC are allocated among Hetch Hetchy, Water, and Wastewater Enterprises. The allocations are based on the SFPUC management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. For the years ended June 30, 2022 and 2021, the SFPUC allocated \$22,221 or 20.7% and \$20,099 or 20.5% respectively, in administrative costs including COVID-19 Project expenses, which is presented in the financial statements under various expense categories. These costs are then allocated to Hetchy Water, Hetchy Power, and CleanPowerSF in the Hetch Hetchy financial statements, using the periodically reviewed department overhead allocation model.

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City's indirect cost allocation plan. Some City departments provide direct services such as engineering, purchasing, legal, data processing, telecommunication, and human resources to Hetch Hetchy and charge amounts designed to recover those departments' costs. These charges totaling approximately \$13,003 and \$12,582 for the years ended June 30, 2022 and 2021, respectively, have been included in services provided by other departments in the accompanying financial statements.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. Total payment under this agreement is \$6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2022, Hetch Hetchy's allocable shares of expenses and prepayment were \$18 and \$904, respectively, and as of June 30, 2021 were \$17 and \$922, respectively.

(b) *Hetchy Water*

For the years ended June 30, 2022 and 2021, the SFPUC allocated \$10,886 or 10.2%, and \$4,585 or 4.7%, respectively, in administrative costs including COVID-19 Project expense to Hetchy Water.

The Water Enterprise purchases water from Hetchy Water. Included in the operating revenues are the water assessment fees of \$45,815 and \$44,149 for the years ended June 30, 2022 and 2021, respectively. The water assessment fees represent a recovery to fund upcountry, water-related costs that are not otherwise funded through Hetchy water-related revenue or Water revenue bonds.

Hetchy Water received \$30,001 and \$16,000 for the years ended June 30, 2022 and 2021, respectively, from the Water Enterprise to fund upcountry projects.

(c) *Hetchy Power*

For the years ended June 30, 2022 and 2021, the SFPUC allocated \$8,820 or 8.2%, and \$13,202 or 13.5% respectively, in administrative costs including COVID-19 Project expense to Hetchy Power.

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As of June 30, 2022, and 2021, operating revenues in sales of power to departments within the City were \$116,334 and \$82,129, respectively.

The Water Enterprise also purchases electricity and gas from Hetchy Power. This amount totaled \$11,394 and \$9,790 for the years ended June 30, 2022 and 2021, respectively.

The Wastewater Enterprise purchases electricity and gas from Hetchy Power. This amount totaled \$11,887 and \$10,122 for the years ended June 30, 2022 and 2021, respectively.

The Low Carbon Fuel Standard (LCFS) program is a regulatory program overseen by the California Air Resources Board (CARB). The LCFS program seeks to reduce the carbon intensity of California's transportation fuel by 20% by 2030. Transportation fuel suppliers can achieve this goal by either reducing the carbon intensity of their fuels or purchasing LCFS credits from other fuel suppliers that have a lower carbon intensity. In 2017, the San Francisco Municipal Transportation Agency (SFMTA) joined the LCFS program, signing up its transit fleet of electric buses, cable cars, and light rail vehicles and generating LCFS credits. Through a Memorandum of Understanding (MOU) with SFMTA, approved by the SFPUC Commission in Resolution 17-0199, net proceeds from the sale of LCFS credits would be shared 50/50 between SFMTA and Hetchy Power. Under the MOU, Hetchy Power would take responsibility for selling the LCFS credits. In Ordinance 0199-19, the Board of Supervisors authorized Hetchy Power to establish the Low Carbon Fuel Standard Fund to account for the revenue and expenditure from the sale of LCFS credits. The Ordinance also allowed Hetchy Power to sell LCFS credits on behalf of other City agencies. As of June 30, 2022 and 2021, Hetchy Power received total payments of \$2,367 and \$2,362, respectively, 50% (\$1,184 in fiscal year 2022 and \$1,181 in fiscal year 2021) was reallocated to SFMTA and the remaining portion was reported as other non-operating revenues on the Statements of Revenues, Expenses, and Change in Net Position.

Due from other City departments was \$11,804 and \$12,406 for the years ended June 30, 2022 and 2021, respectively. Hetchy Power serves as the City's department for energy efficiency projects and maintains the Sustainable Energy Account (SEA) (formerly known as the Mayor's Energy Conservation Account) fund to sponsor and financially support such projects at various City departments. In this role, Hetchy Power may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2022 and 2021, projects completed or under way throughout the City amounted to \$4,050 and \$4,556, respectively, and are recorded as due from other government agencies.

Hetch Hetchy funded a project for the Treasure Island Development Authority and recorded a receivable in connection with an upgraded submarine power cable for the Treasure Island as due from other government agencies. This amount totaled \$6,666 and \$6,627 for the years ended June 30, 2022 and 2021, respectively.

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As of June 30, 2022 and 2021, Hetchy Power recorded receivables of \$629 and \$739, respectively, due from Wastewater Enterprise for its share of costs relating to SFPUC Headquarters Living Machine System. Details of due from other City departments are as follows:

	<u>2022</u>	<u>2021</u>
Treasure Island Development Authority	\$ 6,666	6,627
SEA-related project: Moscone Center	4,050	4,556
Wastewater - 525 Golden Gate Headquarters Project	629	739
San Francisco Recreation and Park	314	419
Department of Public Works	145	65
Total due from other City departments	<u>11,804</u>	<u>12,406</u>
Less: current portion	<u>(867)</u>	<u>(7,413)</u>
Long-term portion as of June 30, net	<u>\$ 10,937</u>	<u>4,993</u>

As of June 30, 2022, Hetchy Power had payables in the amount of \$380, of which \$369 to the Port of San Francisco for Pier 70 Shoreside Power Project and \$11 to the Department of Public Works for painting of light poles. As of June 30, 2021, Hetchy Power had payables of \$369 to the Port of San Francisco for Pier 70 Shoreside Power Project.

(d) *CleanPowerSF*

For the years ended June 30, 2022 and 2021, the SFPUC allocated \$2,515 or 2.4%, and \$2,312 or 2.4%, respectively, in administrative costs to CleanPowerSF.

As of June 30, 2022, and 2021, operating revenue in sales of power to Hetchy Power were \$2,332 and \$1,072, respectively. Operating expenses in purchase of power from Hetchy Power were \$1,589 and \$2,456, respectively. Wholesale sales of energy, capacity and/or other electric power related products may be made between the CleanPowerSF and Hetchy Power, when available. CleanPowerSF and Hetchy Power transact for such products at prevailing market prices.

CleanPowerSF received program support services from Hetchy Power. This amount totaled \$1,861 and \$2,224 for the years ended June 30, 2022 and 2021, respectively.

(13) Risk Management

The Enterprise's Risk Management program includes both self-insured (i.e., self-retention) and insured exposures at risk. Risk assessments and purchasing of insurance coverage are collaboratively coordinated by SFPUC Enterprise Risk Management and the City's Office of Risk Management. With certain exceptions, the City and the Enterprise's general approach is to first evaluate the exposure at risk for self-insurance. Based on this analysis, internal mitigation strategies and financing through a self-retention mechanism are generally more economical, as the SFPUC in coordination with the City Attorney's Office administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go fund). When economically more viable or when required by debt financing covenants, the Enterprise obtains commercial insurance. At least annually, the City actuarially determines general liability and workers' compensation risk exposures. The Enterprise does not maintain commercial earthquake coverage, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the SFPUC Property Insurance Program. In the past three years, there was no settlements that exceeded insurance coverage.

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Risk	Coverage Approach
(a) General Liability	Self-Insured
(b) Workers' Compensation	Self-Insured Through City-wide Pool
(c) Property	Purchased Insurance and Self-Insured
(d) Public Officials Liability	Purchased Insurance
(e) Employment Practices Liability	Purchased Insurance
(f) Cyber Liability	Purchased Insurance
(g) Crime	Purchased Insurance
(h) Electronic Data Processing	Purchased Insurance and Self-Insured
(i) Surety Bonds	Purchased and Contractual Risk Transfer
(j) Errors and Omissions	Purchased and Contractual Risk Transfer
(k) Builders' Risk	Contractual Risk Transfer

(a) *General Liability*

Through coordination with the Controller's Office and City Attorney's Office, the general liability risk exposure is actuarially determined and is addressed through pay-as-you-go funding as part of the budgetary process. Associated costs and estimates are recorded as expenses as required under GAAP for financial statement purposes for both the Enterprise and the City and County of San Francisco's Annual Comprehensive Financial Report. The claim expense allocations are determined based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The changes for the general liability (damage claims) for the years ended June 30, 2022 and 2021 are as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
Hetch Hetchy				
2022	\$ 1,639	3,840	(3,797)	1,682
2021	2,886	4,843	(6,090)	1,639
Hetchy Water				
2022	\$ 525	253	(151)	627
2021	558	478	(511)	525
Hetchy Power				
2022	\$ 1,108	2,005	(2,090)	1,023
2021	2,222	4,212	(5,326)	1,108
CleanPowerSF				
2022	\$ 6	1,582	(1,556)	32
2021	106	153	(253)	6

(b) *Workers' Compensation*

The City actuarially determines and allocates workers' compensation costs to the Enterprise according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the Enterprise's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate the growth of workers' compensation costs. Programs include accident prevention, investigation, and duty modification for injured employees with medical restrictions so return to work can occur as soon as possible.

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The changes for the workers' compensation liabilities for the years ended June 30, 2022 and 2021 are as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Claims and changes in estimates</u>	<u>Claims paid</u>	<u>End of year</u>
Hetch Hetchy				
2022	\$ 3,238	555	(315)	3,478
2021	3,387	113	(262)	3,238
Hetchy Water				
2022	\$ 1,120	233	(125)	1,228
2021	1,187	18	(85)	1,120
Hetchy Power				
2022	\$ 2,118	322	(190)	2,250
2021	2,200	95	(177)	2,118

*CleanPowerSF had no workers' compensation liabilities as of June 30, 2022 and 2021.

(c) ***Property***

The Enterprise's property risk management approach varies depending on whether the facility is currently under construction, the property is part of revenue-generating operations, the property is of high value, or is mission-critical in nature. During the course of construction, the Enterprise requires each contractor to provide its own insurance, while ensuring the full scope of work is covered with satisfactory levels to limit the Enterprise's risk exposure. Once construction is complete, the Enterprise performs an assessment to determine whether liability/loss coverage will be obtained through the commercial property policy or self-insurance. The majority of property scheduled in the insurance program is for (1) revenue generating facilities, (2) debt-financed facilities, (3) mandated coverage to meet statutory requirements for bonding of various public officials, or (4) high-value, mission-critical property or equipment.

(d) ***Public Officials Liability***

All Enterprise public officials with financial oversight responsibilities are provided coverage through a commercial Public Officials Liability Policy.

(e) ***Employment Practices Liability***

An Employment Practices Liability Policy is retained to protect against employment-related claims and liabilities.

(f) ***Cyber Liability***

A Cyber Liability Policy is retained to protect against cyber-related claims and liabilities.

(g) ***Crime***

The Enterprise also retains a Commercial Crime Policy, in lieu of bonding its employees, to provide coverage against liabilities or losses due to third-party crime or employee fraud.

(h) ***Electronic Data Processing***

The Electronic Data Processing policy protects selected high-value electronic property in case of damage or loss.

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(i) ***Surety Bonds***

Bonds are required in most phases of the public utilities construction contracting process for such phases as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty.

(j) ***Errors and Omissions***

Errors and omissions, also known as Professional Liability, are commonly transferred through contract to the contracted professional, or retained through self insurance on a case-by-case basis depending on the size, complexity, or scope of construction or professional service contracts. Examples of such contracts are inclusive of services provided by engineers, architects, design professionals, and other licensed or certified professional service providers.

(k) ***Builders' Risk***

Builders' Risk policies of insurance are required to be provided by the contractor on all construction projects for the full value of construction.

(l) ***Energy Risk Management***

Similar to other electric utilities with a heavy reliance on hydroelectric generation, Hetch Hetchy is exposed to risks that could impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the Hetch Hetchy revenues can vary with watershed hydrology, unexpected generator outages, and market prices for energy. Given the inherent risk for all hydroelectric generation, several risk management interventions have been developed to mitigate exposure.

(m) ***Enterprise Risk Management***

The Power Enterprise adopted the ISO 31000 standard for Hetchy Power and the CleanPowerSF program as the framework for implementing Enterprise Risk Management (ERM). The Enterprise utilizes this framework to systematically and proactively identify and mitigate risks that threatens its business objectives. Since not all risks are insurable or transferable contractually, the ERM program provides an additional method to manage risks and protect the Enterprise's current and expanding business allowing for increased operational resiliency and the ability to capitalize on opportunities.

(14) Commitments and Litigation

(a) ***Commitments***

As of June 30, 2022 and 2021, Hetch Hetchy has outstanding commitments with third parties of \$199,283 and \$143,404, respectively, for various capital projects and other purchase agreements for materials and services.

Hetchy Water

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto Irrigation District (MID) and Turlock Irrigation District (TID) in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetchy Water's

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operating expenses. The payment amounts were \$5,129 and \$5,069 for fiscal years 2022 and 2021, respectively. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of \$1,400 is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52%, while the Districts are responsible for 48% of the costs.

Hetchy Power

Wholesale Distribution Tariff (WDT) and Key Operating Agreements for Grid Access

Upon expiration of the City's previous Interconnection Agreement with PG&E, the City began taking service in 2015 under the Wholesale Distribution Tariff (WDT) for distribution service and under the CAISO Open-Access Transmission Tariff for transmission service. The FERC-regulated Wholesale Distribution Tariff is implemented by PG&E through the City specific Service Agreements and Interconnection Agreements. The terms of these agreements have been in contention since the effective date. The City continues to negotiate with PG&E and, where necessary, file complaints and protests at FERC. In September 2020, PG&E filed a revised WDT. Under the terms of the new WDT, the City would pay substantially higher rates, at least twice to potentially four times the current charges, and be required to install costly and inefficient equipment not needed for technical, safety or reliability of operations. In addition, Hetchy Power would no longer be allowed to connect to the "network" grid in the center of San Francisco; have new secondary interconnections; and/or serve any small, typically unmetered loads, such as streetlights, DAS, traffic signals, and bus shelters.

Staff prepare regular reporting to the Board of Supervisors outlining on-going disputes with PG&E over project requirements, costs and delays. During fiscal years 2022 and 2021, Hetchy Power purchased distribution services for \$22,404 and \$8,868, respectively, from PG&E under the terms of the Service Agreements and Interconnection Agreements that implement the WDT. The City continues to litigate and dispute these terms at FERC and in the court systems; and pursue the purchase of PG&E's electric grid in San Francisco.

Western System Power Pool and other Market Purchases and Sales

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal years 2022 and 2021, Hetchy Power purchased \$4,152 and \$0 of power and other related products, respectively. Sales of excess power, after meeting Hetchy's obligations, were \$0 for 2022 and \$469 or 110,043 MWh for 2021, respectively.

Power Purchase Agreement (PPA)

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a local solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year PPA with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility.

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The PPA sets the starting purchase price of generated energy at \$235/MWh, increasing by 3% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2022, the facility generated 6,460 MWh and the rate was at \$334/MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2022 and 2021, purchases of energy under the Agreement were \$2,225, or 6,460 MWh, and \$2,127, or 6,598 MWh, respectively.

APX, Inc

Hetchy Power and CleanPowerSF participate in the California Independent System Operator (CAISO) energy markets which requires the SFPUC to have a contract with a certified Scheduling Coordinator (SC). In June 2022, CleanPowerSF renewed a 5-year contract with APX, Inc with contract amount not to exceed \$134,743 to fulfill this requirement. APX, Inc provides a number of services including but not limited to an interface with the CAISO's energy scheduling portal, manage invoice payments to the CAISO and communications between the CAISO and the SFPUC, and dispatch of the Hetch Hetchy plant 24 hours a day, seven days a week. The contract also provides that APX, Inc will act as the SC for renewable generation plants under some of CleanPowerSF's Power Purchase Agreements. Hetchy Power's share was \$456 and \$472 as of June 30, 2022 and 2021, respectively. CleanPowerSF's share was \$192 as of June 30, 2022 and 2021.

CleanPowerSF

CleanPowerSF has added multiple additional short-term and medium-term contracts with multiple counterparties pursuant to master agreements, including the WSPP Master Agreement, to purchase renewable, carbon-free and conventional energy and resource adequacy capacity. CleanPowerSF has also entered into long-term contracts for renewable energy and capacity with renewable energy developers including sPower, Terra-Gen, NextEra and EDF Renewables. These contracts have been entered to allow CleanPowerSF to meet its existing retail sales obligations, to support future retail sales from citywide enrollment into the CleanPowerSF program, and to comply with state law requiring that 65% of CleanPowerSF's RPS compliance targets be fulfilled by RPS-eligible electricity from contracts of 10 or more years. Citywide enrollment was substantively completed with the enrollment of residential accounts in April 2019. Since it began serving customers in 2016, CleanPowerSF's cumulative opt-out rate is 4.3% of all enrolled accounts. The total power purchase cost, net of wholesale sales, equaled \$238,149 and \$188,533 in fiscal years 2022 and 2021, respectively.

CleanPowerSF contracts with Calpine Energy Solutions to provide meter data management, billing and customer care support. Calpine is responsible for calculating and providing CleanPowerSF charges to Pacific Gas & Electric (PG&E), which in turn bills both CleanPowerSF and PG&E customers for electricity transmission, distribution, and CleanPowerSF generation services. PG&E remits payments received from customers for CleanPowerSF charges to the City. During fiscal years 2022 and 2021, amounts paid were \$4,730 and \$6,664, respectively.

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CleanPowerSF Power Purchase Agreement (PPA)

In November 2021, CleanPowerSF amended an existing Renewable Power Purchase Agreement with Blythe Solar IV, LLC (seller) to purchase a storage product from the solar powered generation facility located in Blythe, California pursuant to the 20-year PPA. Under the revised agreement, the project in Blythe, California, will add batteries to the operating 62-MW solar photovoltaic power plant. The contract, including the new battery component, is for \$196,399 over 20 years.

In November 2020, CleanPowerSF executed a Power and Storage Purchase Agreement to purchase solar product and storage product from a solar powered generation facility and battery storage facility located at Livermore pursuant to the 25-year PPA with IP Aramis, LLC (Seller). As of June 30, 2022 and 2021, CleanPowerSF received cash collateral of \$9,000 for Development Assurance and Performance Assurance from the Seller.

CleanPowerSF Guarantee

In March 2018, CleanPowerSF entered into a five-year, \$75,000 Credit Agreement with JPMorgan Chase Bank, National Association ("Bank") to provide letters of credit or loans from the Bank to guarantee certain power purchase agreement payment obligations of CleanPowerSF and to meet working capital needs, if necessary. In November 2021 the Credit Agreement was decreased (at the request of CleanPowerSF) the available amount from \$75,000 to \$20,000, and the stated term of the agreement was extended to March 2024. Additional changes to the agreement effected by the November 2021 Amendments include elimination of target reserve requirements, revisions to debt service coverage (allowing for a liquidity test two times in the aggregate for any consecutive four quarters) and rate-setting covenants, changes to ongoing reporting requirements to the Bank, and changes to events of default, including the addition of an event of default if CleanPowerSF's long-term unenhanced credit rating is downgraded below investment grade or suspended, withdrawn or otherwise unavailable. In May 2022 CleanPowerSF executed another amendment to its Credit Agreement to eliminate and change certain financial covenants contained in the 2018 Credit Agreement. Specifically, this Amendment eliminated the covenant of the Commission to maintain a specified debt service coverage ratio and changed such financial covenant to commit the Commission to maintain a specified level of Day Liquidity on Hand (as defined in the Credit Agreement). The Credit Agreement is secured by CleanPowerSF's net revenues; there is no pledge of, or lien on net revenues that ranks senior to the obligations under the Credit Agreement. The Bank issued letters of credit in the face amounts totaling \$5,847 and \$13,810 for fiscal years ending June 30, 2022 and 2021, respectively. CleanPowerSF did not draw on the Credit Agreement during fiscal years 2022 and 2021. Accordingly, the uncommitted credit capacity under the Credit Agreement was \$14,153 and \$61,190 during fiscal years 2022 and 2021, respectively.

Original financial covenants include that CleanPowerSF maintain a Debt Service Coverage Ratio as defined in the Credit Agreement of not less than 1.05 for each fiscal quarter, as determined for the four consecutive fiscal quarter periods ended on the last day of such fiscal quarter. As of June 30, 2021, CleanPowerSF was not in compliance with this financial covenant as calculated for the four consecutive fiscal quarters ended on such date, resulting in a covenant event of default under the Credit Agreement. In connection with subsequent amendments to the Credit Agreement, JPMorgan Chase granted a waiver of such event of default for the period ended June 30, 2021. CleanPowerSF was in compliance with other covenants and requirements of the

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

Credit Agreement as of June 30, 2021. CleanPowerSF was in compliance with all covenants and requirements of the Credit Agreement as amended as of June 30, 2022.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, requires the disclosure of certain information related to debt, including unused letters of credit. Significant events of default under the Credit Agreement, include 1) non-payment, 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the agreement and 3) bankruptcy and insolvency events, which could result in all outstanding loans under the Credit Agreement to be immediately due and payable; or the immediate termination of the Bank's commitment to issue letters of credit or make loans under the Credit Agreement.

Green Tariff and Community Solar Green Tariff Programs for Disadvantaged Communities

In June 2018, the California Public Utilities Commission (CPUC) established the Disadvantaged Communities-Green Tariff (DAC-GT) and Community Solar Green Tariff (CSGT) program to address barriers to solar adoption faced by low-income electric customers in neglected communities. The DAC-GT program provides a 20% rate discount on 100% Renewable Portfolio Standard (RPS) eligible electricity service to income-qualified customers residing in Disadvantaged Communities (DACs) as defined by the California Environmental Protection Agency's (Cal EPA). Similar to DAC-GT, the CSGT program allows primarily for the DACs to benefit from the development of solar generation projects located in their own or nearby DACs. CSGT projects must also have a local community-based sponsor that supports site selection and customer enrollment.

The CPUC approved CleanPowerSF's application to establish DAC-GT and CSGT programs in April 2021 and to receive funds to cover program administration and a portion of electricity supply costs. CleanPowerSF began enrolling customers in the DAC-GT program branded as "SuperGreen Saver" on June 1, 2022. The CSGT program is expected to start serving customers during fiscal year 2025, once CleanPowerSF is able to procure electricity from a CSGT-eligible solar project(s). As of June 30, 2022, CleanPowerSF received \$1,150 from a combination of ratepayer funds and California Cap and Trade Auction proceeds.

(b) *Litigation*

Hetch Hetchy is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of Hetch Hetchy.

(c) *Grants*

Grants that the Enterprise received are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(d) *Environmental Issue*

As of June 30, 2022, and 2021, there was no pollution remediation liability recorded.

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Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in thousands, unless otherwise stated)

(15) Subsequent Event

(a) *Hetchy Power and CleanPowerSF - Extension on the Moratorium on Shutoff of Electric Service*

On September 13, 2022, the Commission approved to extend moratorium on shutoff of electric service for Hetchy Power residential retail customers in the City through June 30, 2023 and granted the General Manager discretion to restart severance and liens processes to multi-family residential accounts carrying balances greater than \$25 which are 90 days or more past due. In addition, the temporary suspension of the return of delinquent residential CleanPowerSF customers to PG&E has also been extended through June 30, 2023.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Mayor and Board of Supervisors

City and County of San Francisco: We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Hetch Hetchy Water and Power and Clean Power (Hetch Hetchy), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Hetch Hetchy's basic financial statements, and have issued our report thereon dated January 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hetch Hetchy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hetch Hetchy's internal control. Accordingly, we do not express an opinion on the effectiveness of Hetch Hetchy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hetch Hetchy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hetch Hetchy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
January 27, 2023



San Francisco Public Utilities Commission
An Enterprise Department of the City and
County of San Francisco, California

Our mission

To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.

Cover photo: San Francisco Embarcadero
Back photos: San Francisco Aquatic Park, Conservatory of Flowers
in Golden Gate Park
Photos by: Robin Scheswohl and Sabrina Wong

Date of Publication: January 2023

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