



# Report of the Chair

January 14, 2025

Rate Fairness Board

# Agenda

1. Schedule and Tasks for Rate Fairness Board in 2025
  - Water and Wastewater Capacity Charge Update
  - FY 2025-26 Hetch Hetchy Power and CleanPowerSF Rates
  - 2026 Power Rate Study
2. FY 2025-26 Hetch Hetchy Power and CleanPowerSF Rates
  - Proposed Rate Adjustments and 10-Year Financial Plans



# **Schedule and Tasks for Rate Fairness Board in 2025**

Rate Fairness Board  
January 14, 2025

# Capacity Charge Update

The SFPUC is updating the Water and Wastewater Capacity Charges to recover the costs borne by existing and prior rate payers to build excess capacity in our system.

## Why update?

Ensures rate payer equity amongst new & previous customers who have helped fund the system over time.

## Updates to reflect:

1. Recent capital investments
2. Changes in usage behavior

Tentative implementation: July 1<sup>st</sup>, 2025

# Power Rates Updates

## FY 2025-26 Power Rate Updates

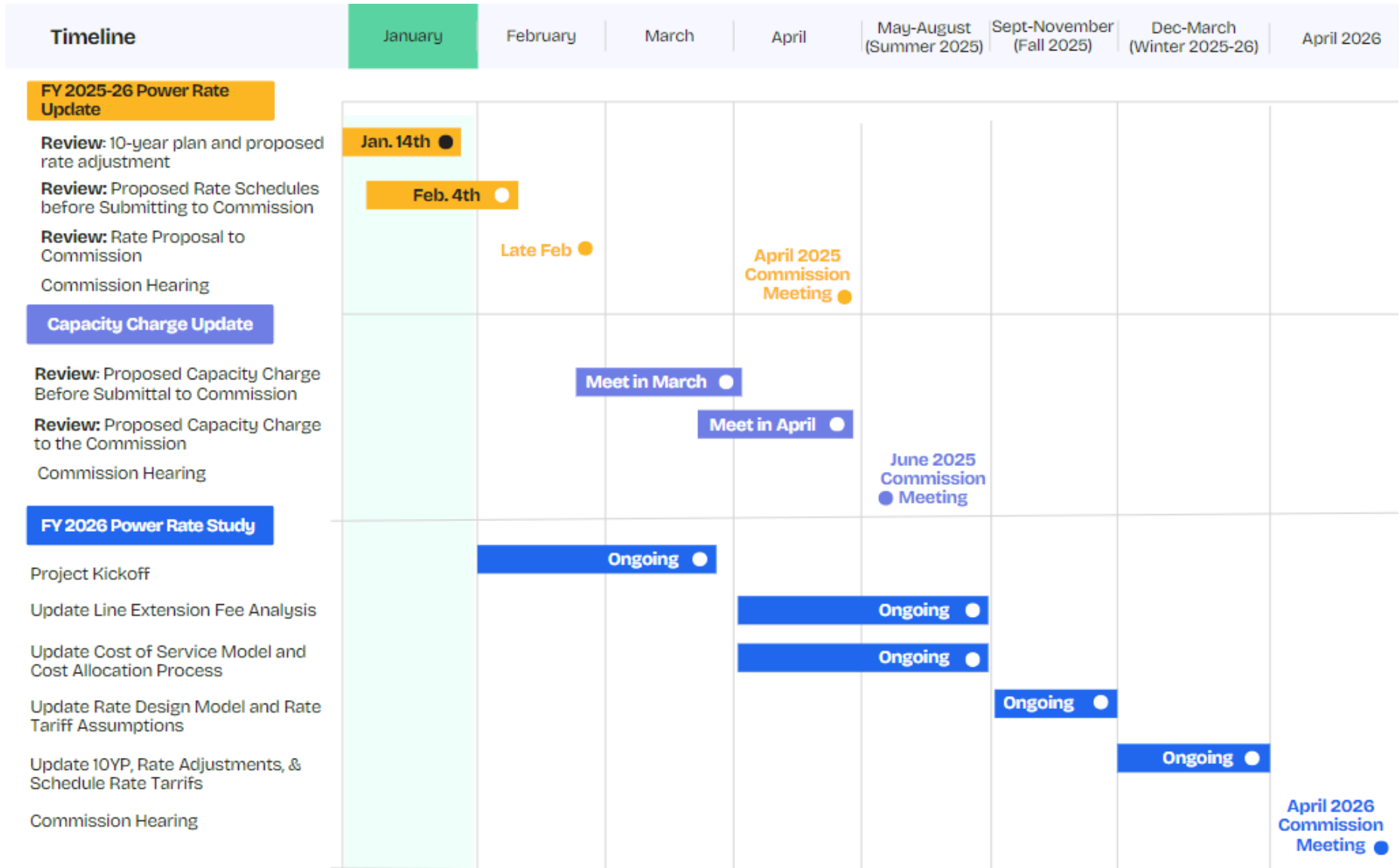
- One year adjustment to HHP and CPSF Power rates based on:
  - Updated 10-year plan
  - Updated customer usage data
- Implementation: July 1, 2025

## FY 2026 Power Rate Study

- New Rate Study to cover next 4-5 years, considering:
  - Allocation of costs to customer classes based on usage patterns, peaking behavior, and other drivers of costs
  - Revised seasonality and time-of-use periods and cost drivers
  - New rate tariffs for high usage customers
  - Update to line extension fees
- Implementation: July 1, 2026



# Schedule for 2025





# **FY 2025-26 Hetch Hetchy Power & CleanPowerSF Rate Update: Proposed Rate Adjustments and 10- Year Financial Plans**

Rate Fairness Board

January 14, 2025



# Rate Study Process



## Policy & Rate Structure Review

- Financial Policies
- Sources of revenues
- Uses of Funds
- Long-term investments



## Revenue Requirement Analysis

Compares the revenues of the enterprise to expenses to determine the level of rate adjustments needed.



## Cost of Service Analysis

Equitably allocates the revenue requirements between customer classes



## Rate-Design Analysis

Design rates for each customer class to meet the revenue needs of the utility along with other rate design goals

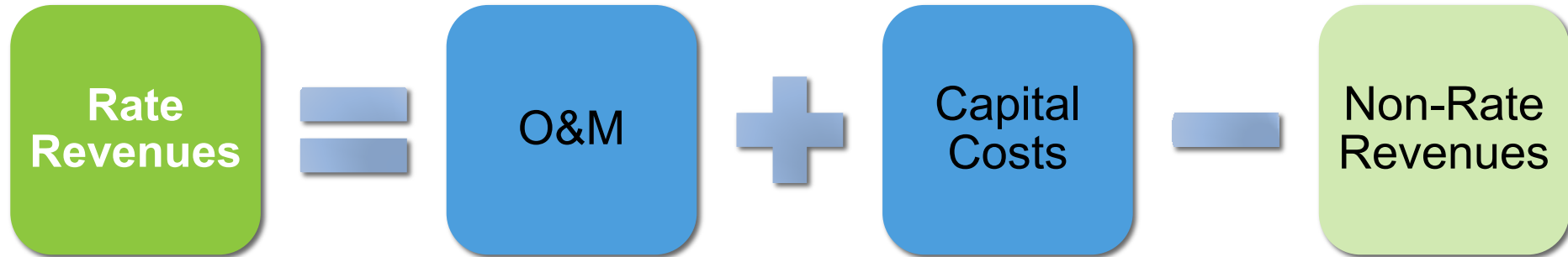


## Integrated Public Outreach & Messaging

Develop a cohesive messaging and outreach program that harmonizes technical cost of service requirements and community values



# Revenue Sufficiency Analysis



## Additional Considerations

Maintaining Financial Obligations

Long-term Rate Predictability

Meeting Financial Policies

Managing Risk

Achieving Other Guiding Principles

Considering Rate Payer and Elected Tolerance for Recommendations

# Financial Plan Assumptions

## Operating Assumptions

- FYE 2025 and FYE 2026 expenses set to budget with execution factors applied
- Expenses escalated annually based on 3% inflation, cost-of-living adjustments for salaries, and Mayor's budget office projected changes to fringe benefits

## Power Purchase Assumptions

- Power generation, market prices for supply not under contract, and other purchased power costs projected conservatively; developed with Power Risk Management and Power Supply teams
- Conservative assumptions around new project completion – delays and slow ramp-up
- Reducing power demand assumptions lowers power costs and reduces revenue

## Capital Assumptions (Primarily Hetch Hetchy)

- Capital *appropriation* based on FY26-FY35 CIP
- Capital *spending* based on plans from Infrastructure Bureau with execution factors applied
- Debt-funded capital initially funded through commercial paper, then refinanced with a revenue bond (result = delay from appropriation to debt service cost in rates)

## Financial Metrics

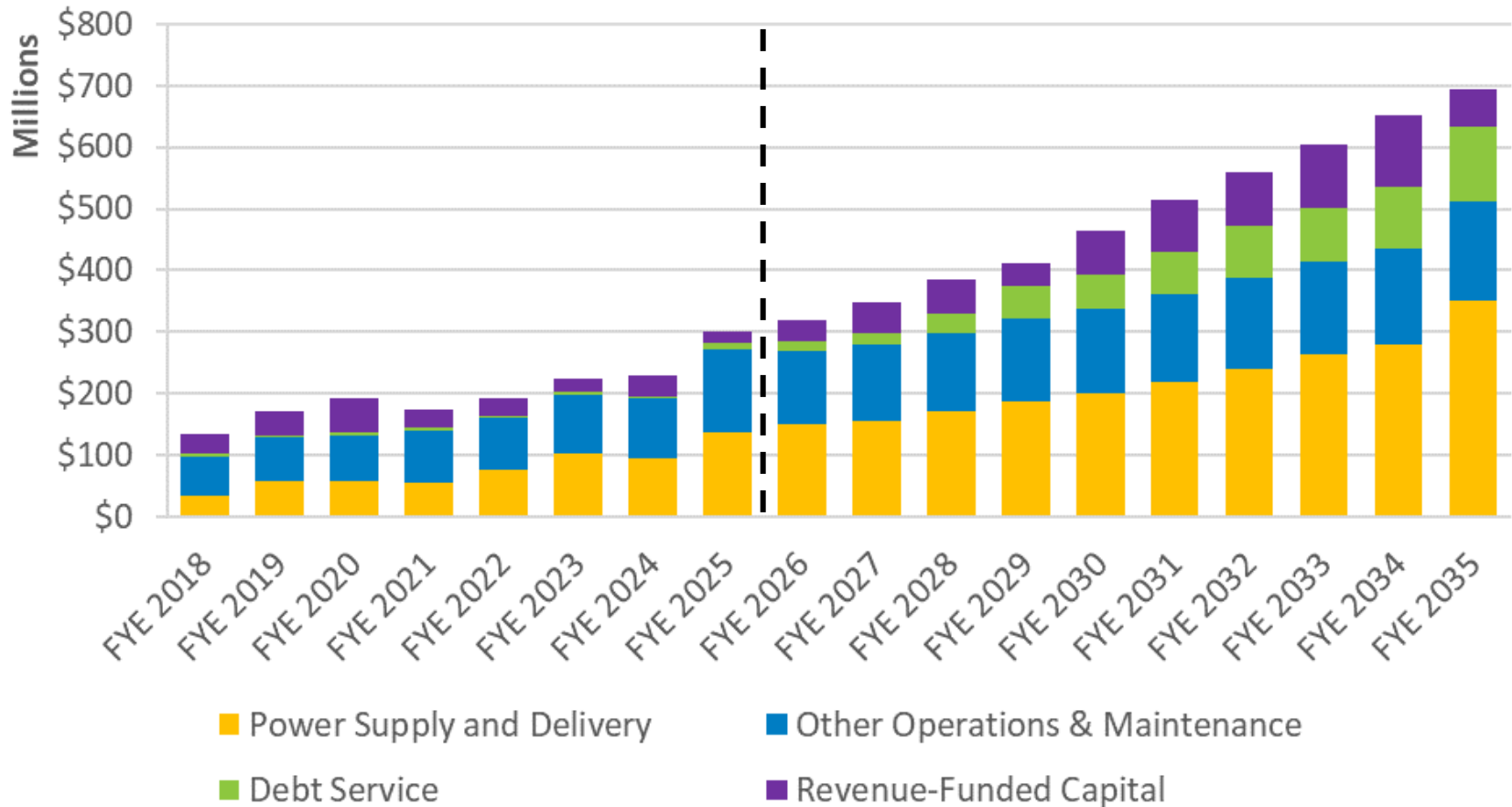
- Pressure on bond ratings for City broadly and SFPUC, negative outlook for Wastewater
- Balanced plan with financial metrics higher than financial policy minimums



# FY 2025-26 Hetch Hetchy Power Rate Update: Proposed Rate Adjustments and 10-Year Financial Plans



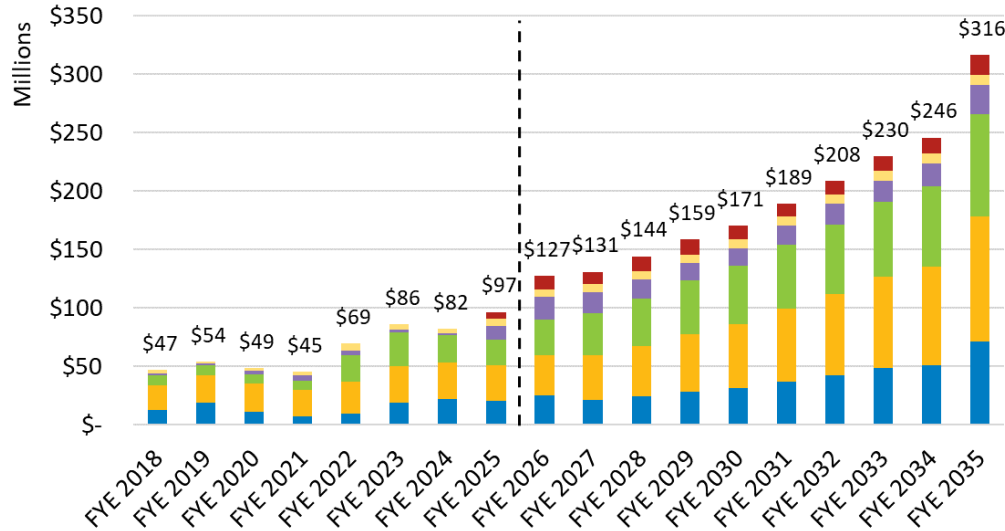
# Hetch Hetchy Power: Annual Expenses



- **12%** average annual increase in total expenses from FYE 2026-FYE 2035
- Principally driven by Power Purchase and Debt Service



# Hetch Hetchy Power: Power Purchase Expenses



- **10%** average annual increase in Power Purchase Expenses FYE 2026 – FYE 2034
- **29%** increase in power purchase in FYE 2035
- Some increases reflect customer growth and come with offsetting revenues

## Purchased Power Supply

- Power purchases from contracts or open market

## Purchased Resource Adequacy

- Power attribute for local/stable power supply to meet regulatory requirements

## Transmission Access Charges

- Payments to CAISO to use non-owned transmission grid

## Miscellaneous Fees

- CAISO fees not based on volumes

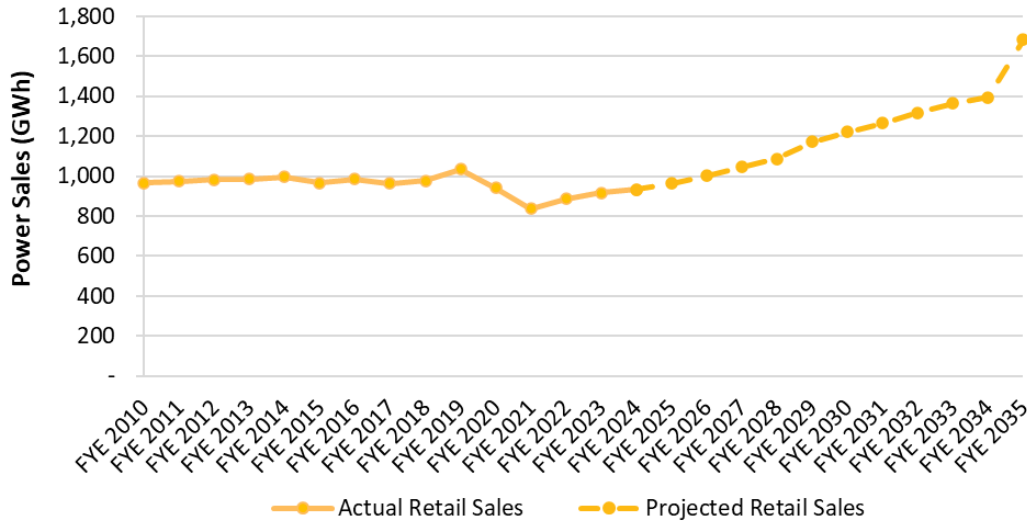
## Wholesale Distribution Tariffs

- Payments to PG&E to use in-city distribution system

## Power Supply Contingency

- Budgeted amount to cover cost overages

# Hetch Hetchy Power: Revenues

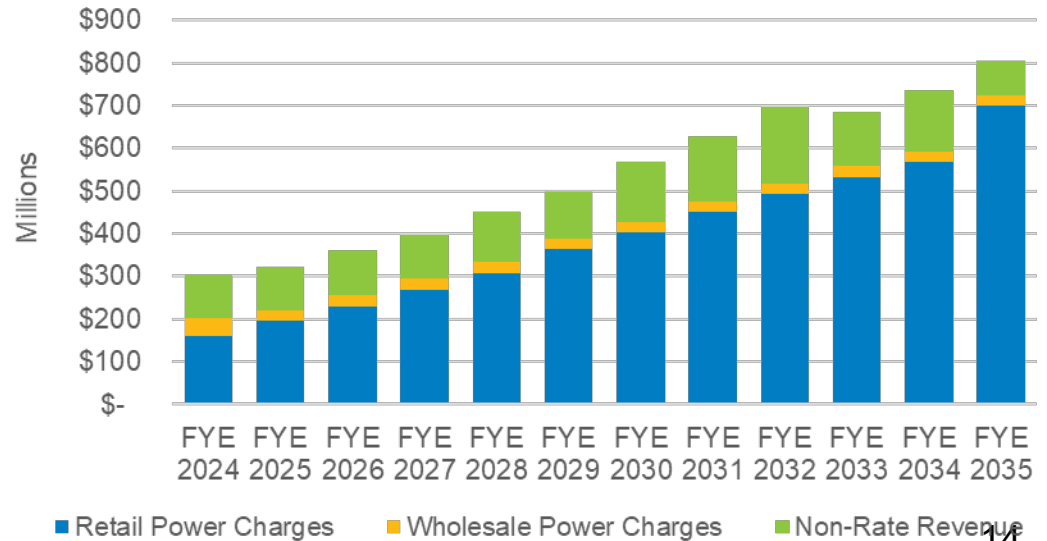


## Power Sales

- Projected power demand reflects anticipated completion of:
  - Municipal projects
  - New Multi-Family Residential Developments
  - Electrification of SFO
  - New electric steam generation customer in FY 2035
- Current projections are more conservative than last 10-year plan

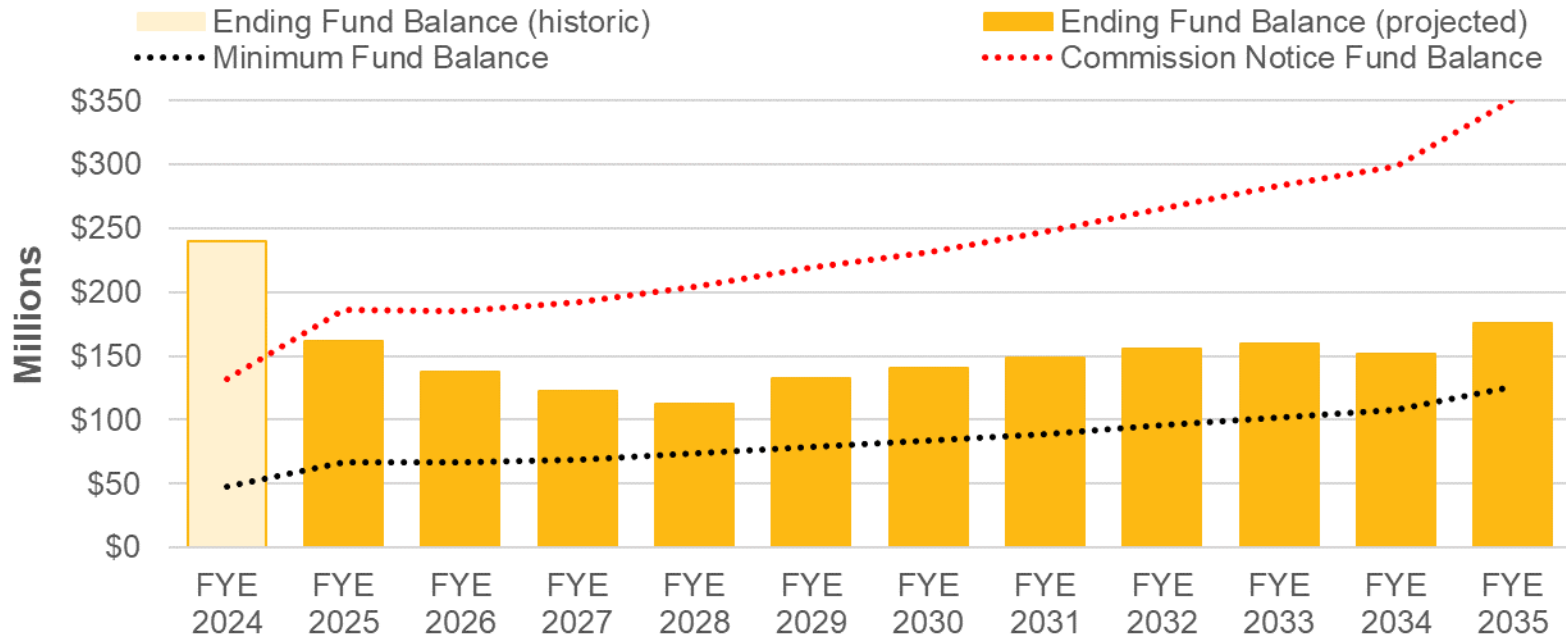
## Total Revenues

- 12% average annual growth in revenues FYE 2026 – FYE 2035
- Power Rate revenues comprise the majority of the total revenues
- Some non rate revenue and wholesale revenues
- Growth reflects changes in rates and growth in total sales






# Hetch Hetchy Power: Rate Plan



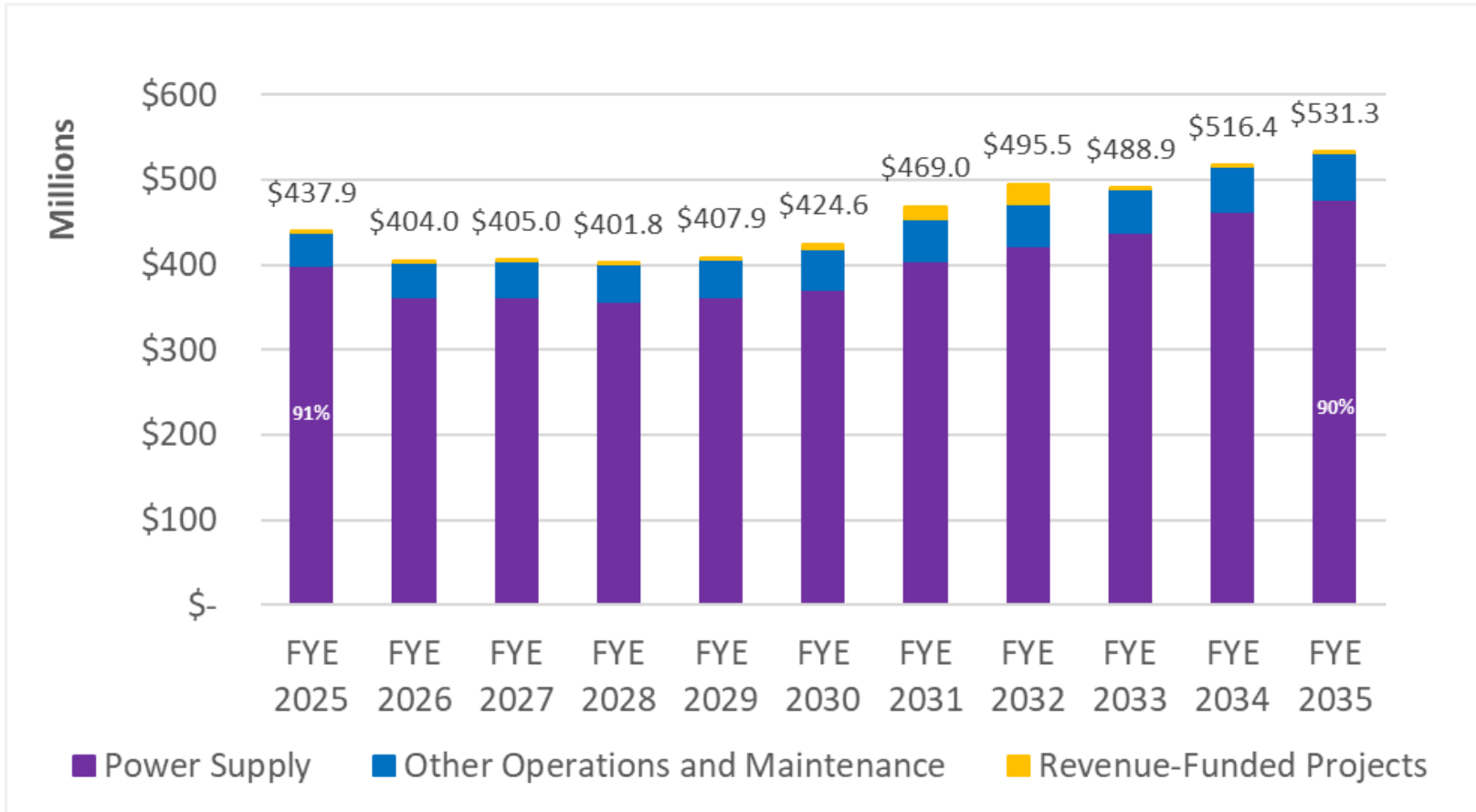
Rate $\Delta$	12.0%	10.0%	9.5%	9.5%	8.0%	5.0%	5.0%	4.5%	4.0%	4.0%	5.0%
DSC	-0.96	1.90	3.00	2.36	2.01	2.48	2.37	2.05	2.22	2.06	1.72

- **6.5%** average annual rate increase between FYE 2026 and FYE 2035
- Driven to preserve balance between revenue and operating expenditure growth
- Goal to preserve financial metrics that are in line with peer agencies with high bond ratings



**FY 2025-26 CleanPowerSF Rate  
Update:  
Proposed Rate Adjustments and  
10-Year Financial Plans**

# CleanPowerSF: Annual Expenses

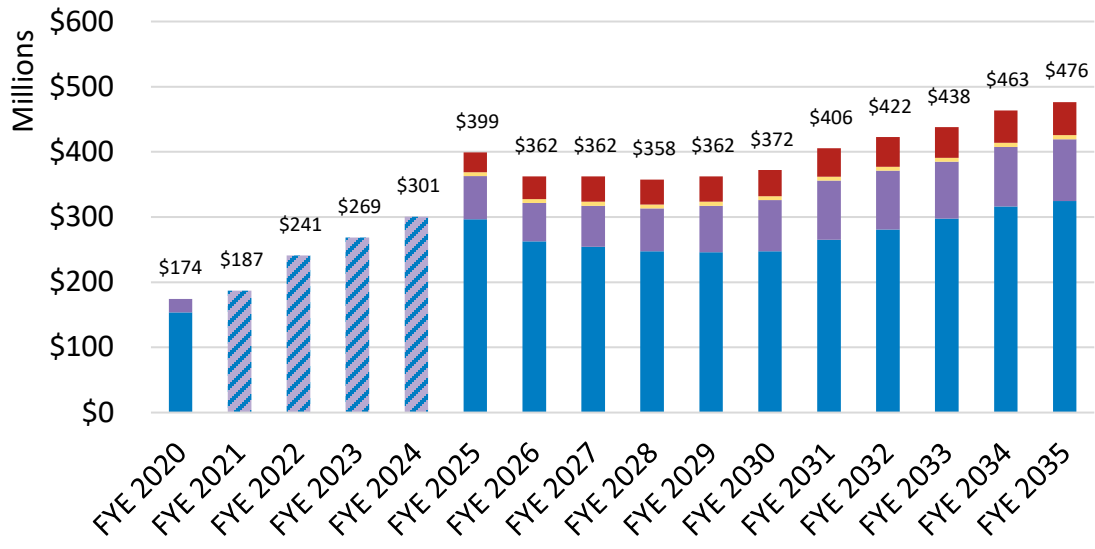


- **3.1%** average annual increase in total expenses from FYE 2026-FYE 2035
- Power supply costs remain relatively flat until 2030, when new power contracts are expected to come online at a higher cost per KWh than current contracts.





# CleanPowerSF: Power Purchase Expenses



- **3.2%** average annual increase in Power Purchase Expenses FYE 2026 – FYE 2034
- Projections include 10% - 11% expense contingency

## Purchased Power Supply

- Power purchases from contracts or open market

## Miscellaneous Fees

- CAISO fees not based on volumes

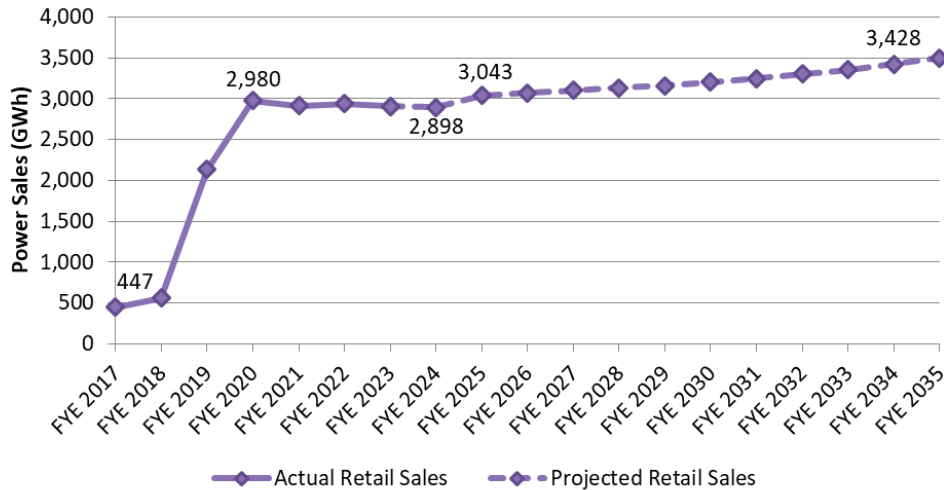
## Purchased Resource Adequacy

- Power attribute for local/stable power supply to meet regulatory requirements

## Power Supply Contingency

- Budgeted amount to cover cost overages

# CleanPowerSF: Revenues

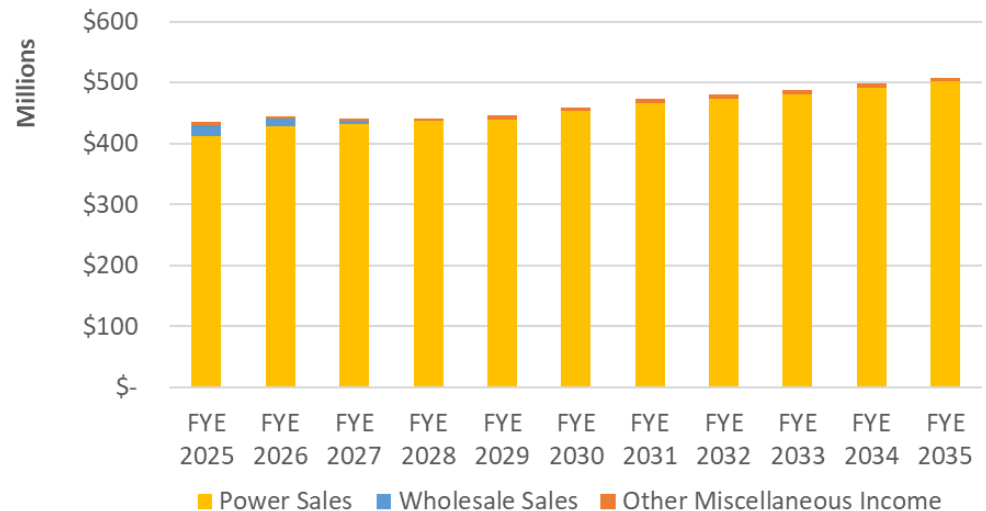


## Power Sales

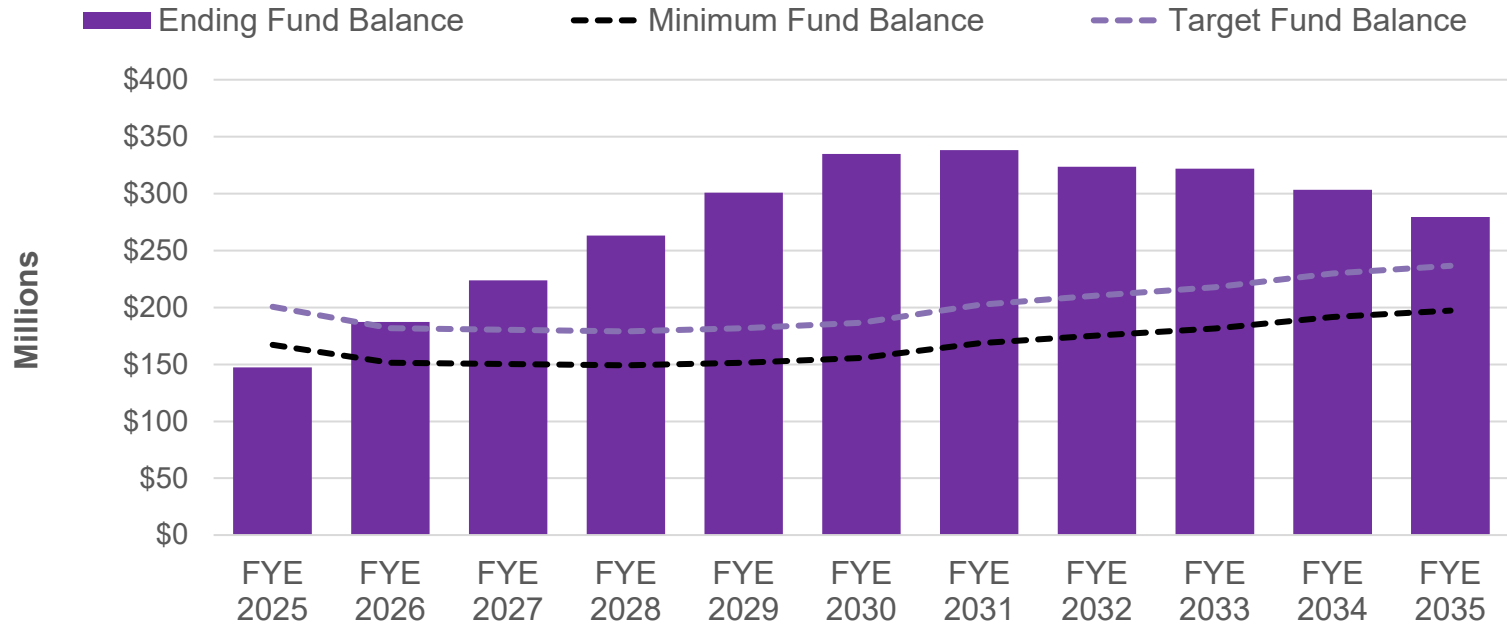
- Projected power demand mostly flat. Minor increases due to:
  - Retail account growth
  - Electrification

## Total Revenues

- **1.4%** average annual growth in revenues FYE 2026 – FYE 2035
- Power Rate revenues comprise the vast majority of the total revenues
- Some non rate revenue and wholesale revenues
- Growth reflects changes in rates and growth in total sales



# CleanPowerSF: Rate Plan



Rate $\Delta$	8.5%	3.0%	0.0%	0.0%	0.0%	1.5%	1.5%	0.0%	0.0%	0.0%	0.0%
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- Prior 10-year plan had a 12% projected rate increase for FYE 2025
- CPSF implemented an 8.5% rate increase in FYE 2025 to preserve competitive rates with PG&E
- **3%** rate increase in FYE 2026 to reach the target fund balance.
- Current rates exceed expenses until FYE2030, when Power Purchase costs begin to increase
- Generation rates can remain flat until ~FYE 2030
- Modest rate increases are proposed in FYE 2030 to preserve reserves over our target.
- PG&E increased generation rates **21%** over their October rates in January 2025

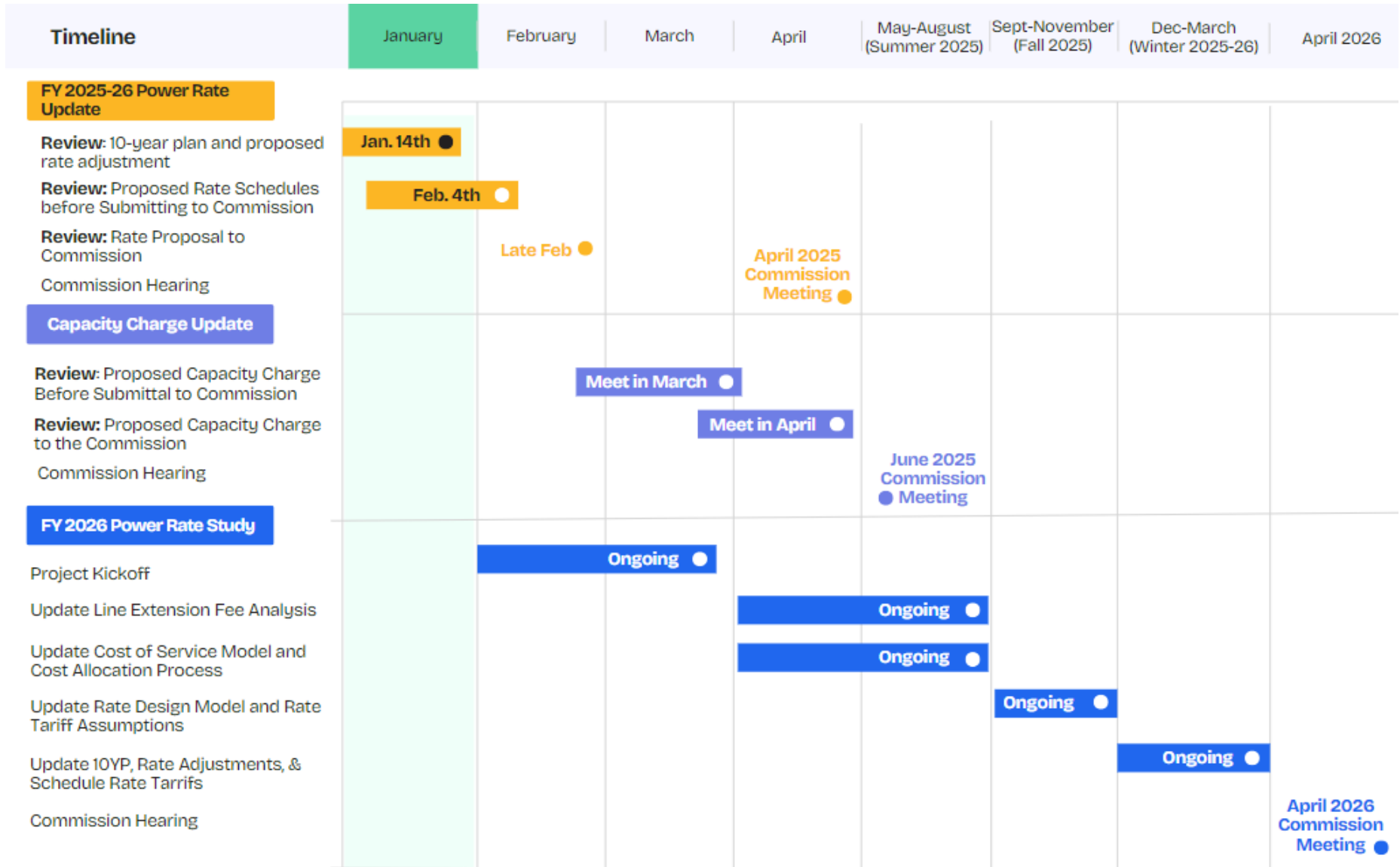
# Next Steps







# Schedule for 2025 and 2026



# Discussion & Questions

