KPMG

Yano Accountancy Corporation

SAN FRANCISCO WATER ENTERPRISE AND HETCH HETCHY WATER AND POWER

Statement of Changes in the Balancing Account

June 30, 2021

(With Independent Auditors' Report Thereon)

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

Yano Accountancy Corporation

Independent Auditors' Report

To the City and County of San Francisco
and the Wholesale Customers:

Report on the Financial Statement

KPMG LLP and Yano Accountancy Corporation have audited the Statement of Changes in the Balancing Account (the statement) of the San Francisco Water Enterprise (Water Enterprise) and Hetch Hetchy Water and Power (Hetch Hetchy), under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC), for the year ended June 30, 2021, prepared pursuant to Article VII, Section 7.02 of the Water Supply Agreement (WSA), between the City and County of San Francisco (City) and certain Wholesale Customers in the counties of San Mateo, Santa Clara, and Alameda (Wholesale Customers) effective July 1, 2009.

Management's Responsibility for the Financial Statement

Management of the SFPUC is responsible for the preparation and fair presentation of the statement in accordance with Article VII, Section 7.02 of the WSA. Management of the SFPUC is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the statement that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement of Changes in the Balancing Account, referred to above, presents fairly, in all material respects, changes in the Balancing Account for the year ended June 30, 2021 in accordance with Article VII, Section 7.02 of the WSA.

Yano Accountancy Corporation

Basis of Accounting

We draw attention to note (1)(b) to the statement, which describes the basis of accounting. The statement was prepared by the SFPUC on the basis of the financial reporting provisions of Article VII, Section 7.02 of the WSA, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the WSA. Our opinion is not modified with respect to this matter.

Other Matter

KPMG LLP has audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the San Francisco Water Enterprise and of Hetch Hetchy Water and Power as of and for the year ended June 30, 2021, and our reports thereon, dated January 27, 2022 expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Mayor, Board of Supervisors, San Francisco Public Utilities Commission, City management, and the Wholesale Customers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP   Yano Accountancy Corporation

San Francisco, California
September 13, 2023

SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER

Statement of Changes in the Balancing Account

Year ended June 30, 2021

	Totals	Amount Allocated to the Wholesale Customers
Wholesale Revenue Requirement Calculation:		
Operations and Maintenance (O&M) expense:		
San Francisco Water Enterprise (Water Enterprise):		
Source of supply	$ 28,663,810	$ 15,604,478
Pumping	1,694,803	—
Treatment	45,531,738	31,455,230
Transmission and distribution	70,999,619	17,497,220
Customer Accounts	10,816,529	213,835
Total Water Enterprise Operations & Maintenance	157,706,499	64,770,763
Hetch Hetchy Water and Power (Hetch Hetchy):		
Operations & Maintenance	127,100,057	19,208,926
Total Hetch Hetchy Operations & Maintenance	127,100,057	19,208,926
Administrative and general (A&G) expenses:		
COWCAP:		
Water Enterprise	3,105,989	1,275,630
Hetch Hetchy	969,619	304,383
SF Public Utilities Commission (Bureaus):		
Water Enterprise	33,445,580	15,105,992
Hetch Hetchy	17,139,427	3,178,436
Other A&G – Water Enterprise	22,284,639	7,289,701
Other A&G – Hetch Hetchy	32,788,254	3,652,900
Compliance audit	190,020	95,010
Total administrative and general expenses	109,923,528	30,902,052
Property taxes (outside city only):		
Water Enterprise	1,958,673	1,369,896
Hetch Hetchy	582,786	182,948
Total property taxes	2,541,459	1,552,844
Capital cost recovery - existing regional assets:		
K-5:		
Water Enterprise		201,027
Hetch Hetchy		88,788
Capital cost contribution - new regional assets:		
Debt-funded capital projects:		
Water Enterprise		145,834,689
Hetch Hetchy		—
True-Up of Substantially Expended Bonds		(305,643)
Credit for Federal BABs Interest Subsidy		(14,802,217)
Other Debt-Related Costs: Escrow Payments		13,807,831
Revenue-funded capital projects:		
Water Enterprise		9,617,108
Hetch Hetchy		(2,583)
True-Up of Wholesale Capital Fund		(727,181)
Total Capital Cost Recovery		153,711,819
Total Wholesale Revenue Requirement		$ 270,146,404
Balance due from (to) Wholesale Customers, July 1, 2021		$ (63,393,776)
Adjustments to Beginning Balance (FY 18-19 & FY 19-20 7.06 Settlement Agreement)		(136,119)
Adjusted Balance due from (to) Wholesale Customers, July 1, 2021		(63,529,895)
Interest on adjusted beginning balance at 0.68%		(432,003)
Wholesale revenues billed		(275,113,885)
Deposit to / (Transfer from) Wholesale Coverage Reserve		2,431,211
Transfer from Balancing Account for BAWSCA Water Projects		197,000
Transfer from Balancing Account for K-5 Prepayment		4,030,664
Calculated Wholesale Revenue Requirement		270,146,404
FY 19-20 Net Interest on Wholesale Coverage Reserve / Working Capital		(709,172)
Balancing account, June 30, 2021		$ (62,979,676)
Total payable due to Wholesale Customers, June 30, 2021		$ (62,979,676)
Wholesale revenue coverage reserve shortfall (surplus), as of June 30, 2021		$ (1,104,094)

See accompanying notes to the statement of changes in the balancing account.

(1) Summary of Significant Accounting Policies

(a) Water Supply Agreement

The City and County of San Francisco (City), acting by and through its Public Utilities Commission (SFPUC), and the Wholesale Customers, represented by the Bay Area Water Supply and Conservation Agency (BAWSCA), entered into the Water Supply Agreement (WSA) on July 1, 2009. The November 2018 Amended and Restated Wholesale Water Supply Agreement (WSA) was ratified by all BAWSCA member agencies and the SFPUC in April 2019. The WSA has a twenty-five year term with two options for five-year extensions, and contains provisions on rate-setting, accounting, and dispute resolution, including emergency and drought-pricing adjustment. The WSA has a 184 millions of gallons per day (mgd) Supply Assurance. During the period from 2009 to 2028 the WSA limits the quantity of water delivered to the Retail Customers and Wholesale Customers from the watersheds to 81 mgd and 184 mgd, respectively, or a total of 265 mgd.

(b) Basis of Accounting

Pursuant to the terms of the WSA, the accounts of the San Francisco Water Enterprise (Water Enterprise) and Hetch Hetchy Water and Power (Hetch Hetchy), are maintained in conformity with accounting principles generally accepted in the United States of America. The financial activities of the Water Enterprise and Hetch Hetchy Funds are accounted for on a flow of economic resource measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statements of net assets; revenues are recognized when earned, and expenses are recognized when liabilities are incurred. The SFPUC applies all applicable Governmental Accounting Standards Board pronouncements. For copies of the Water Enterprise and Hetch Hetchy audited financial statements for the year ended June 30, 2021, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

Under the WSA, current operating expenditures, including regional revenue-funded capital projects and debt service on bonds sold to finance regional water system improvements, are allocated between Retail Customers and the Wholesale Customers on the basis of Proportional Annual Use. The Balancing Account is maintained pursuant to the WSA, and by other provisions that may result from a settlement agreement prescribed in Article VII, Section 7.06 of the WSA.

(c) Balancing Account under the WSA

Pursuant to the terms of the WSA, the SFPUC is required to establish water rates applicable to the Wholesale Customers at the beginning of each fiscal year. The wholesale water rates are based on an estimate of revenues necessary to recover the cost of distributing water to the Wholesale Customers in accordance with the methodology outlined in Articles V and VI of the WSA.

Pursuant to Article VII, Section 7.02 of the WSA, the City is required to prepare the Wholesale Revenue Requirement (WRR) of the Water Enterprise and Hetch Hetchy after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Wholesale Customers. The difference between the wholesale revenue billed to the Wholesale Customers during the year and the “actual” WRR is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Wholesale Customers (if wholesale revenue billed exceed the WRR) or owed to the SFPUC (if the WRR exceeds wholesale revenues billed). The Balancing Account is reflected on the Water Enterprise's financial statements as either an asset or a liability depending on the amount due from or owed to the Wholesale Customers.

In accordance with Article VI, Section 6.05B of the WSA, the amount recorded in the Balancing Account will earn interest at a rate equal to the average rate earned on the invested pooled funds of the City Treasurer, and is taken into consideration in the determination of subsequent wholesale water rates.

(d) Proportional Annual Use and Adjusted Proportional Annual Use

The WSA states that the Wholesale Customers will pay their share of expenses incurred by the SFPUC in delivering water on the basis of Proportional Annual Use unless otherwise indicated in the WSA. WSA Attachment J prescribes the calculation methodology to determine Proportional Annual Use. At the end of each fiscal year, as specified in WSA Attachment J, the SFPUC and BAWSCA sign off on Table J-1, which memorializes the annual water deliveries to Retail and Wholesale Customers. The information in the Table J-1 is the basis for the Proportional Annual Use calculation.

The Proportional Annual Use is defined as the share of deliveries from the Regional Water System used by City Retail Customers and by the Wholesale Customers in a fiscal year, expressed as a percentage. The Adjusted Proportional Annual Use is defined as the respective percentages of annual water use, as adjusted to reflect deliveries of water by Hetch Hetchy to Retail Customers outside of the city limits of the City and County of San Francisco.

(e) Minimum Annual Purchases

Alameda County Water District and the cities of Milpitas, Mountain View, and Sunnyvale have agreed to a minimum annual purchases requirement, which requires each to purchase a minimum annual quantity of water from the SFPUC. These minimum quantities are included in the Individual Water Sales Contracts between SFPUC and each of these four Wholesale Customers reference to Article III, Section 3.07.C of the WSA, and WSA Attachment E.

These Wholesale Customers are billed for minimum quantities only if minimum annual purchase quantities have not been met in any fiscal year. Minimum annual purchase payments are considered wholesale water revenues. Additionally, the Proportional Annual Use is based on minimum quantities for each of these four customers if minimum annual purchase quantities are not met. Any differences between minimum quantities and below-minimum actuals are referred to as imputed water sales.

During the year ended June 30, 2021, the city of Mountain View did not meet its minimum purchase requirements. Revenues associated with the shortfall in the amount of $2,055,966 are included as wholesale water revenues, and 1.0 mgd of imputed water sales was added to the wholesale usage used to calculate Proportional Annual Use.

(f) Basis of Allocating Operating Expenses

Pursuant to the terms of the WSA, direct Water Enterprise and specific Hetch Hetchy expenses are allocated to the applicable user. Regional Water Enterprise operating and maintenance expenses related to source of supply, treatment, transmission and distribution are allocated based on Proportional Annual Use.

Two percent of Water Enterprise customer service expenses are allocated to the Wholesale Customers. Water Enterprise administrative and general expenses, including the assigned costs under the City's Countywide Cost Allocation Plan, services provided by other City departments and water administration, are allocated based on the ratio of total allocated wholesale operating and maintenance expenses to total Water Enterprise operating and maintenance expenses. Certain SFPUC bureau expenses are identified as regional operations and maintenance expenses and allocated to the Wholesale Customers on Proportional Annual Use basis. Remaining SFPUC bureau expenses are allocated to the Water Enterprise on the basis of labor costs incurred by the various SFPUC enterprises, and then allocated to the Wholesale Customers on the basis of Proportional Annual Use.

Water Enterprise property taxes are levied against properties owned by the City in Alameda, San Mateo, and Santa Clara counties, and operated and managed by the SFPUC. Hetch Hetchy property taxes are levied against properties owned by the City in Tuolumne, Stanislaus, San Joaquin, and Alameda counties, and operated and managed by the SFPUC. All property taxes paid, net of (1) reimbursements received from lessees and permit holders and (2) refunds from taxing authorities, are considered Water Enterprise regional expenses or joint Hetch Hetchy expenses. The Wholesale Customers are allocated a share of Water Enterprise and Hetch Hetchy property tax expenses on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively.

Forty-five percent of joint Hetch Hetchy expenses are water-related expenses. The water-related share of joint Hetch Hetchy operating, maintenance, and administrative and general expenses is allocated based upon on Adjusted Proportional Annual Use.

Fifty percent of the cost of the compliance audit described in Article VII, Section 7.04 of the WSA is allocated to the Wholesale Customers.

(g) Wholesale Customers Review

Article VII, Section 7.06 of the WSA provides the Wholesale Customers the right to conduct a review of the SFPUC's calculation of the annual Wholesale Revenue Requirement and changes in the Balancing Account. The review shall be completed within 60 days after the date of the compliance auditor's report is issued. At the conclusion of the review, representatives of SFPUC and BAWSCA meet to discuss any differences noted. Adjustments agreed by both parties are adjusted to the Balancing Account. If differences cannot be resolved, the dispute shall be submitted to the arbitration in accordance with Article VIII, Section 8.01 of the WSA.

(h) Capital Cost Recovery – Existing Regional Assets

The SFPUC previously appropriated funds, advanced through rates charged to Retail Customers, for construction of capital projects. The unexpended balances of these appropriated funds were not included in construction work in progress as listed on WSA Attachment K-1 and K-2 as of June 30, 2009. These projects, and their associated balances, are shown on WSA Attachment K-5. Expenditures of funds from these balances from July 1, 2009 to June 30, 2014 are allocated to the Wholesale Customers based on Proportional Annual Use and amortized over ten years at an interest rate of 4%. Fiscal year 2020-21 is the seventh year for capital cost recovery through Schedule K-5. The Wholesale Customers are allowed, under Section 6.05.B.2 of the WSA to use Balancing Account amounts due to them to pay all or a portion of the remaining K-5 principal balance. On September 18, 2020, the Wholesale Customers elected to prepay the full remaining balance of $4,030,664 as of September 30, 2020.

(i) Capital Cost Contribution – New Regional Assets

The wholesale share of Water Enterprise and Hetch Hetchy capital expenditures incurred during the term of the WSA are allocated on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively. These costs include net annual debt service and appropriations for revenue-funded regional capital additions.

Capital expenditures financed by debt are allocated to bond proceeds on a first-in, first-out basis to the extent allowable by law and the terms of the applicable indenture. In accordance with Article V, Section 5.04A of the WSA, the SFPUC issues a certificate on the expected use of bond proceeds within 15 days of issuance (WSA Attachment L-2), and a report on actual expenditures of and earnings on bond proceeds after the proceeds are considered substantially expended (WSA Attachment L-3). The Wholesale Customers' proportionate share of net annual debt service is based on the expected use of bond proceeds on regional projects. Any differences between expected and actual expenditures on regional projects are applied in the year the proceeds are substantially expended. For copies of WSA Attachments L-2 or L-3 previously issued for each indenture, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

SFPUC and the Wholesale Customers clarified certain procedures relating to the administration of the accounting, debt administration, and capital cost contribution components of Article V, Section 5.04A as part of the Settlement Agreement (Article VII, Section 7.06 of the WSA) for the year ended June 30, 2010. For copies of the Settlement Agreement (Article VII, Section 7.06 of the WSA) for the year ended June 30, 2010, please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

The regional share of appropriations for revenue-funded regional asset expenditures are allocated to the Water Enterprise and Hetch Hetchy on the basis of Proportional Annual Use and Adjusted Proportional Annual Use, respectively. Adjustments to reflect actual vs. appropriated expenditures are made in accordance with Article VI, Section 6.08 of the WSA, which was amended in May 2019.

(j) Allocation of 525 Golden Gate Avenue Expenses

525 Golden Gate Avenue is the headquarters of the SFPUC as of July 2012. This building consolidated divisions of the SFPUC that were renting space at multiple locations in the Civic Center area, and consists of a new 277,500 square-foot Class A office building that spans 13 floors plus a basement level. In allocating 525 Golden Gate Avenue costs, building tenants occupy 10,709 square feet (3.9% of total building square footage), which reduces the costs allocated to the Wholesale Customers.

Certificates of Participation, 2009 Series C and D, were issued by the City in October 2009 to fund the SFPUC headquarters building at 525 Golden Gate Avenue.

Operating, maintenance, capital expenses, and debt service payments pertaining to 525 Golden Gate Avenue are classified as Administrative and General expenses and are allocated to the three enterprises (Water, Hetch Hetchy, and Wastewater) based on square footage occupied by each enterprise based at 525 Golden Gate Avenue.

(k) Interest Earnings and Excess Funds Related to Bond Issuance

Interest earnings and excess funds available from funds associated with regional bonds – including Debt Service Reserves and Capital Projects Funds – are allocated between the Wholesale and Retail Customers based on the debt service allocation of the underlying bond series (see Note (5)(a)).

All interest earnings on Debt Reserve Funds are accounted for as credits against gross debt service in determining the net debt service amounts. Interest earnings from unexpended bond proceeds in the Capital Projects Funds are treated as additional funds available for project expenditures.

(l) Grants

The Wholesale Customers are allocated a proportional benefit from funds received by the SFPUC from (a) governmental grants, rebates, reimbursements, or other subventions or (b) private-sector grants for Regional capital or operating purposes. The Wholesale Customers' allocated benefit is based on any excess of grant revenues over expenses.

Bonds 2010 Series B, 2010 Series E, and 2010 Series G were issued as Build America Bonds, with the Federal government subsidizing a portion of the annual interest payments. The subsidy amount changes based on the Federal government's budget, and per agreement between the parties in the Fiscal Year 2015-16 Settlement Agreement, the cash receipts in a Fiscal Year are credited proportionally to the Wholesale Customers based on the underlying debt service allocation of each series. Beginning in Fiscal Year 2016-17, per the advice of the SFPUC's bond counsel, interest rebates from the taxable federal Build America Bonds are no longer credited against gross debt service due to federal sequestration. Instead, they are reflected as a governmental revenue credit; the impact on the Balancing Account from both treatments is the same.

(Continued)

(m) Wholesale Revenue Coverage Reserve and Working Capital Requirements

Under Article VI, Section 6.06 of the WSA, the SFPUC may require periodic deposits by the Wholesale Customers to fund a debt service coverage reserve account (the Wholesale Revenue Coverage Reserve) established and maintained by the SFPUC to meet debt service and minimum working capital requirements. The WSA sets the formula to calculate the debt service coverage and the working capital requirement. The ceiling of the Wholesale Revenue Coverage Reserve is the greater amount between the required debt service coverage and the working capital. Under Article VI, Section 6.06B of the WSA, any balance in the Wholesale Revenue Coverage Reserve in excess of the actual wholesale coverage requirement may be applied as a credit against wholesale rates in the following fiscal year, unless otherwise instructed by BAWSCA.

The Debt Service Coverage is calculated as the lesser of: (i) 25% of the Wholesale Customers' share of net annual debt service for the applicable fiscal year or (ii) the amount necessary to meet the Wholesale Customers' proportionate share of debt service coverage, less any credits for previous deposits and interest accruing to the Wholesale Revenue Coverage Reserve.

The working capital requirement prescribed in Article VI, Section 6.07 of the WSA is one-sixth (two months) of the annual wholesale allocation of operation and maintenance, administrative and general, and property tax expenses for the Water Enterprise and Hetch Hetchy.

Interest on the Wholesale Coverage Reserve is included as an adjustment to the Balancing Account based on the Wholesale Coverage Reserve balances, calculated working capital requirement and the City's pooled fund rate from the prior fiscal year. The entire Wholesale Coverage Reserve accrues interest at the City's pooled funds rate. If the average monthly Wholesale Coverage reserve balance is less than the calculated working capital requirement, interest on the Wholesale Coverage Reserve is reduced by calculated interest on the difference between the balance and the calculated working capital requirement.

(2) Balancing Account under the WSA

(a) Balancing Account Activity

The following summarizes activity in the Balancing Account under the WSA for the year ended June 30, 2021:

Table 2.1. Activity in the Balancing Account

	As previously reported	Adjustments	Adjusted balance
Balancing account under the WSA, June 30, 2021	$ (63,393,776)	—	(63,393,776)
Fiscal Year 2018-19 & Fiscal Year 2019-20 settlement agreement (note 2b)	—	(139,021)	(139,021)
Interest on Fiscal Year 2018-19 & Fiscal Year 2019-20 settlement agreement (note 2b)	—	2,902	2,902
Balancing account under the WSA, as adjusted, June 30, 2021	$ (63,393,776)	(136,119)	(63,529,895)
Interest on adjusted beginning balance at 0.68%			(432,003)
Net wholesale revenue billed (note 6)			(275,113,885)
Transfer from Wholesale Coverage Reserve			2,431,211
Transfer for BAWSCA water projects (note 2c)			197,000
Transfer from Balancing Account for K-5 Prepayment			4,030,664
Calculated wholesale revenue requirement			270,146,404
Interest on wholesale coverage reserve excess (note 2b)			(709,172)
Balancing account under the WSA, June 30, 2021			$ (62,979,676)

(b) Article VII, 7.06 Settlement Agreement – Fiscal Year 2018-19 and Fiscal Year 2019-20

In accordance with Article VII, Section 7.06 of the WSA, the SFPUC and the Wholesale Customers reached a settlement agreement on November 19, 2021, relating to costs attributable to the fiscal year ended June 30, 2019, and a settlement agreement on July 25, 2022, relating to costs attributable to the fiscal year ended June 30, 2020. The following are adjustments to the June 30, 2020 beginning Balancing Account agreed to by both parties to the WSA.

Table 2.2. Settlement Agreements

	Amount
Adjustments to June 30, 2020 beginning balance:	
Fiscal Year 2018-19 settlement adjustments:	
Settlement agreement – Minimum Purchase Payment	$ 245,247
Settlement agreement – SF Lands Manager	(88,749)
Settlement agreement – CDD Buildings & Grounds	(4,595)
Subtotal Fiscal Year 2018-19 settlement adjustments – due (to)/from wholesale customers	151,903
Fiscal Year 2019-20 settlement adjustments:	
Settlement agreement – CDD Personnel	(111,104)
Settlement agreement – Staff Loan to Juvenile Probation Center	(23,337)
Settlement agreement – CDD Telephone Expenses	(184,136)
Settlement agreement – Landscape Maintenance on SFPUC Watershed Properties	(2,128)
Settlement agreement – Infrastructure Division COVID-19 Work	29,781
Subtotal Fiscal Year 2019-20 settlement adjustments – due (to)/from wholesale customers	(290,924)
Subtotal settlement adjustments – due (to)/from wholesale customers	(139,021)
Interest on adjustments:	
FY 2019-20 interest at 1.91%	2,902
Subtotal interest on settlement adjustments – due (to)/from wholesale customers	2,902
Total Fiscal Year 2018-19, Fiscal Year 2019-20 settlement adjustments – due (to)/from wholesale customers	$ (136,119)

(c) Application of Balancing Account for Water Supply Projects

In July 2020, $197,000 from the Balancing Account was transferred to BAWSCA to support water supply projects, as authorized by WSA Section 6.05.B.2. This amount is deducted during the fiscal year, and reflected in the Balancing Account as of June 30, 2021.

(3) Proportional Annual Use and Adjusted Proportional Annual Use

The Proportional Annual Use and the Adjusted Proportional Annual Use for the Wholesale and Retail Customers since the inception of the WSA in Fiscal Year 2009–10 are summarized below:

Table 3.1. Proportional Annual Use and Adjusted Proportional Annual Use

	Proportional annual use		Adjusted proportional annual use	
Fiscal year	Wholesale	Retail	Wholesale	Retail
2009-10	66.67 %	33.33 %	66.48 %	33.52 %
2010-11*	65.86	34.14	65.70	34.30
2011-12*	65.83	34.17	65.72	34.28
2012-13	66.56	33.44	66.43	33.57
2013-14	67.63	35.37	67.52	32.48
2014-15	65.67	34.33	65.56	34.44
2015-16	63.28	36.72	63.15	36.85
2016-17	64.27	35.73	64.12	35.88
2017-18*	66.04	33.96	65.91	34.09
2018-19*	65.68	34.32	65.52	34.48
2019-20*	66.99	33.01	66.90	33.10
2020-21*	69.94	30.06	69.76	30.24

*adjusted for imputed water sales

(4) Capital Cost Contribution – Existing Regional Assets (WSA Attachment K-5)

WSA Attachment K-5 represents projects of previously appropriated funds, which are summarized on the following table, advanced through rates charged to Retail Customers, for construction of capital projects. From July 1, 2009 to June 30, 2015, the Water Enterprise incurred total expenditures of $9,599,442 including interest through June 30, 2015, of which $6,618,478 is the Wholesale share and $12,385,482 for Hetch Hetchy including interest through June 30, 2015, of which $2,923,204 is the Wholesale share. Based on the WSA Section 5.03, these expenditures were amortized over ten years at an interest rate at 4%. The wholesale share is based on Proportional Annual Use for Water Enterprise and Adjusted Proportional Annual Use for Hetch Hetchy. Fiscal year 2020-21 is the seventh of ten annual cost recoveries for WSA Attachment K-5 capital projects.

The Wholesale Customers are allowed by Section 6.05.B.2 of the WSA to use Balancing Account amounts due to them to pay all or a portion of the remaining K-5 principal balance. On September 18, 2020, the Wholesale Customers elected to prepay the full remaining balance of $4,030,664. As a result, the payment for the fiscal year ended June 30, 2021 represents principal and interest through September 30, 2020.

Table 4.1. Capital Cost Contribution

		Water Enterprise	Hetch Hetchy	Total
Total expenditures of previously appropriated funds – July 1, 2009 to June 30, 2015	$	9,599,442	12,385,482	21,984,924
Wholesale share of expenditures		6,393,692	2,812,954	9,206,646
Interest on wholesale share of expenditures		224,786	110,250	335,036
Total amount due from Wholesale Customers	$	6,618,478	2,923,204	9,541,682
Interest rate		4%	4%	
Term (years)		10	10	
Annual payment due from Wholesale Customers	$	201,027	88,788	289,815

The activity in the liability account for K-5 projects for the fiscal year ended June 30, 2021 is summarized below.

Table 4.2. WSA Attachment K-5 Payments

		Water Enterprise	Hetch Hetchy	Total
Principal balance as of June 30, 2020	$	2,967,745	1,310,773	4,278,518
Principal payment		(171,921)	(75,933)	(247,854)
Prepayment		(2,795,824)	(1,234,840)	(4,030,664)
Principal balance as of June 30, 2021	$	—	—	—
Cumulative payments received through June 30, 2021:				
Applied to principal	$	3,822,654	1,688,363	5,511,017
Applied to interest		1,203,011	531,338	1,734,349
Total	$	5,025,665	2,219,701	7,245,366

(5) Capital Cost Contribution – New Regional Assets

(a) Debt-Funded Capital Projects

The Water Enterprise has previously issued revenue bonds to fund the construction of new regional capital assets. As of June 30, 2021, outstanding debt related to the construction of new regional capital assets included 11 different Water Revenue Bond Series, as well as 10 different Water Revenue Bond Series refunding all or a portion of other bonds. When a bond refunds more than one underlying bond series, the debt service is split out and allocated to the Wholesale Customers proportionally based on the allocation of the underlying bond. Bond 2020 Series A, 2020 Series B and 2020 Series D had no debt service payments during Fiscal Year 2020-21 because although they were issued during the fiscal year, they were structured for the first debt service payment to occur during Fiscal Year 2021-22. The following tables summarize the net debt service expenditures on outstanding debt related to the construction of new regional assets that was determined to be allocable to the Retail and Wholesale Customers.

The Water Enterprise paid $246,047,420 in gross debt service on the bonds listed in the table below during the year ended June 30, 2021. The net debt service is decreased to $245,986,083 when other interest earnings and other cash on hand of $61,337 are applied against the gross debt service payments.

Table 5.1. Debt Service Expenditures – New Regional Assets

	Principal	Net interest	Total
2010 Series B	$ 11,920,000	$ 21,645,037	$ 33,565,037
2010 Series E	—	20,059,169	20,059,169
2010 Series G	—	24,424,704	24,424,704
2011 Series B	730,000	44,773	774,773
2015 Series A/2006 Series A Refunding	14,635,000	17,279,332	31,914,332
2015 Series A/2009 Series A Refunding	—	1,844,220	1,844,220
2016 Series A/2009 Series A Refunding	9,980,000	13,370,248	23,350,248
2016 Series A/2009 Series B Refunding	9,725,000	15,051,123	24,776,123
2016 Series A/2010 Series F Refunding	250,000	6,838,750	7,088,750
2016 Series C	5,705,000	8,866,135	14,571,135
2017 Series A	—	987,335	987,335
2017 Series B	—	277,653	277,653
2017 Series C	—	787,430	787,430
2017 Series D/2011 Series A Refunding	890,000	11,174,411	12,064,411
2017 Series D/2012 Series A Refunding	—	6,114,401	6,114,401
2017 Series F/2011 Series B Refunding	—	435,250	435,250
2017 Series G/2011 Series A Refunding	500,000	903,553	1,403,553
2019 Series A/2010 Series F Refunding	3,280,000	312,919	3,592,919
2019 Series A/2011 Series A Refunding	3,575,000	14,236,302	17,811,302
2019 Series A/2012 Series A Refunding	—	11,486,406	11,486,406
2019 Series B/2011 Series B Refunding	—	729,955	729,955
2020 Series A	—	—	—
2020 Series B	—	—	—
2020 Series D	—	—	—
2020 Series E/2010 Series D Refunding	—	79,469	79,469
2020 Series E/2012 Series A Refunding	—	3,337,606	3,337,606
2020 Series E/2017 Series A Refunding	—	1,699,850	1,699,850
2020 Series F/2017 Series B Refunding	—	1,900,664	1,900,664
2020 Series H/2017 Series C Refunding	—	909,388	909,388
	$ 61,190,000	$ 184,796,083	$ 245,986,083

The following table shows the allocation of each bond series to retail and regional projects, as well as the Fiscal Year during which each bond reached substantially expended. Bond 2016 Series C reached substantially expended during the year ended June 30, 2021.

Table 5.2. Wholesale Customers Debt Service Allocation (%)

	Excluded costs	Retail projects	Regional projects	Total	Substantially expended fiscal year	Allocation adjusted fiscal year
2010 Series B	0.02	7.13	92.85	100.00	FY 10-11	FY 15-16 7.06
2010 Series E	—	3.17	96.83	100.00	FY 15-16	FY 15-16 7.06
2010 Series G	—	—	100.00	100.00	FY 14-15	
2011 Series B	—	0.53	99.47	100.00	FY 18-19	
2012 Series A	—	8.83	91.17	100.00	FY 18-19	
2015 Series A/ 2006 Series A Refunding	33.71	13.10	53.19	100.00	FY 09-10 7.06	
2015 Series A/ 2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10 7.06	
2016 Series A/ 2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10 7.06	
2016 Series A/ 2009 Series B Refunding	0.85	12.51	86.64	100.00	FY 10-11	FY 15-16 7.06
2016 Series A/ 2010 Series F Refunding	—	—	100.00	100.00	FY 14-15	
2016 Series C	—	0.98	99.02	100.00	FY 20-21	
2017 Series A	—	0.54	99.46	100.00	FY 18-19	
2017 Series B*	—	70.40	29.60	100.00		
2017 Series C	—	—	100.00	100.00	FY 18-19	
2017 Series D/ 2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15	
2017 Series D/ 2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19	
2017 Series F/ 2011 Series B Refunding	—	0.53	99.47	100.00	FY 18-19	
2017 Series G/ 2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15	
2019 Series A/ 2010 Series F Refunding	—	—	100.00	100.00	FY 14-15	
2019 Series A/ 2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15	
2019 Series A/ 2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19	
2019 Series B/ 2011 Series B Refunding	—	0.53	99.47	100.00	FY 18-19	
2020 Series A*	—	2.04	97.96	100.00		
2020 Series B*	—	—	100.00	100.00		
2020 Series D*	—	—	100.00	100.00		
2020 Series E/ 2010 Series D Refunding	—	2.77	97.23	100.00	FY 11-12	
2020 Series E/ 2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19	
2020 Series E/ 2017 Series A Refunding	—	0.54	99.46	100.00	FY 18-19	
2020 Series F/ 2017 Series B Refunding	—	70.40	29.60	100.00		
2020 Series H/ 2017 Series C Refunding	—	—	100.00	100.00	FY 18-19	

* Expected allocation to be trued up w hen bond reaches Substantially Expended status (note 5a)

The table below shows the allocation of the net debt service in Table 5.1 using the percentages from Table 5.2. The regional share of all bonds except for 2011 Series B, 2017 Series C, and 2020 Series D is allocated based on Proportional Annual Use. Because 2011 Series B, 2017 Series C, and 2020 Series D fund Hetch Hetchy water-related capital project expenditures, the Wholesale share of the debt on these series for the year ended June 30, 2021 was allocated using the Adjusted Proportional Annual Use percentage of 69.76%.

In total, $145,834,621 in net debt service is allocated to the Wholesale Customers.

Table 5.3. Wholesale Customers Debt Service Allocation ($)

	Excluded costs	Retail projects	Regional projects	Total	Proportional annual use	Total wholesale debt service
2010 Series B	$ 6,713	$ 2,393,187	$ 31,165,137	$ 33,565,037	69.94%	$ 21,796,897
2010 Series E	—	635,876	19,423,293	20,059,169	69.94%	13,584,651
2010 Series G	—	—	24,424,704	24,424,704	69.94%	17,082,638
2011 Series B	—	4,106	770,667	774,773	69.76% *	537,617
2015 Series A/ 2006 Series A Refunding	10,758,321	4,180,777	16,975,233	31,914,332	69.94%	11,872,478
2015 Series A/ 2009 Series A Refunding	583,696	192,352	1,068,172	1,844,220	69.94%	747,080
2016 Series A/ 2009 Series A Refunding	7,390,353	2,435,431	13,524,464	23,350,248	69.94%	9,459,010
2016 Series A/ 2009 Series B Refunding	210,597	3,099,493	21,466,033	24,776,123	69.94%	15,013,343
2016 Series A/ 2010 Series F Refunding	—	—	7,088,750	7,088,750	69.94%	4,957,872
2016 Series C	—	142,797	14,428,338	14,571,135	69.94%	10,091,180
2017 Series A	—	5,332	982,003	987,335	69.94%	686,813
2017 Series B	—	195,468	82,185	277,653	69.94%	57,480
2017 Series C	—	—	787,430	787,430	69.76% *	549,311
2017 Series D/ 2011 Series A Refunding	—	780,567	11,283,844	12,064,411	69.94%	7,891,920
2017 Series D/ 2012 Series A Refunding	—	539,902	5,574,499	6,114,401	69.94%	3,898,805
2017 Series F/ 2011 Series B Refunding	—	2,307	432,943	435,250	69.76% *	302,021
2017 Series G/ 2011 Series A Refunding	—	90,810	1,312,743	1,403,553	69.94%	918,133
2019 Series A/ 2010 Series F Refunding	—	—	3,592,919	3,592,919	69.94%	2,512,888
2019 Series A/ 2011 Series A Refunding	—	1,152,391	16,658,911	17,811,302	69.94%	11,651,242
2019 Series A/ 2011 Series B Refunding	—	1,014,250	10,472,156	11,486,406	69.94%	7,324,226
2019 Series B/ 2012 Series A Refunding	—	3,869	726,086	729,955	69.76% *	506,518
2020 Series A	—	—	—	—	69.94%	—
2020 Series B	—	—	—	—	69.94%	—
2020 Series D	—	—	—	—	69.76% *	—
2020 Series E/ 2010 Series D Refunding	—	2,201	77,268	79,469	69.94%	54,041
2020 Series E/ 2012 Series A Refunding	—	294,711	3,042,895	3,337,606	69.94%	2,128,201
2020 Series E/ 2017 Series A Refunding	—	9,179	1,690,671	1,699,850	69.94%	1,182,455
2020 Series F/ 2017 Series B Refunding	—	1,338,067	562,597	1,900,664	69.94%	393,480
2020 Series F/ 2017 Series C Refunding	—	—	909,388	909,388	69.76% *	634,389
	$ 18,949,680	$ 18,513,073	$ 208,523,329	$ 245,986,083		$ 145,834,689

* Adjusted Proportional Annual Use (note 5b)

(b) Build America Bonds Federal Interest Subsidy

2010 Series B, 2010 Series E and 2010 Series G are Federally taxable bonds with Build America Bonds Subsidy (BABS) revenues. The following table shows total BABS revenues received of $21,886,851 and wholesale shares credited to the Wholesale Customers of $14,802,218.

Table 5.4. Build America Bonds Federal Interest Subsidy

Bond Series		Total BABs Subsidy	% of Regional Projects	Proportional Annual Use		Wholesale Share
2010 Series B	$	(7,162,914)	92.85 %	69.94 %	$	(4,651,545)
2010 Series E		(6,641,546)	96.83 %	69.94 %		(4,497,848)
2010 Series G		(8,082,391)	100.00 %	69.94 %		(5,652,824)
	$	(21,886,851)			$	(14,802,217)

(c) True-Up of Substantially Expended Bonds

Article V, Section 5.04 of the WSA requires the revised allocation factor be used in the year when a bond series becomes substantially expended and thereafter. The difference between the amount of net debt service paid by the Wholesale Customers prior to the year that the bond series became substantially expended and the amount of the net debt service that they should have paid will be included in the calculation of the Balancing Account in the year the bond series becomes substantially expended. Table 2 shows the Fiscal Year during which each bond reached substantially expended. As of June 30, 2021, Bond 2016 Series C reached substantially expended status. A true-up of $305,643 is included in Fiscal Year 2020-21 WRR to account for the change from the estimated allocation of 100% regional projects to the final allocation of 99.02% regional projects.

(d) Use of Escrow Funds for Bond-Funded Capital Expenditures

Bonds 2010 Series D, 2012 Series A, 2017 Series A, and 2017 Series C were partially or fully refunded by 2020 Series E, 2020 Series F, and 2020 Series H during Fiscal Year 2020-21. Debt service payments for the underlying series already been made to the trustee during Fiscal Year 2020-21 were instead applied to pay for the cost of issuance or respective escrow accounts for their refunding bonds. These amounts are not considered debt service for the year, but are included as "other costs of debt" as authorized by WSA Section 5.04 (A)(6), since they represent actual payments made to support Water Revenue Bonds that are not accounted for elsewhere in the Wholesale Revenue Requirement. Their allocation to the Wholesale Customers is proportional to the allocation of each underlying bond series. The following table shows the total payments to refunding escrows included in the Fiscal Year 2020-21 Wholesale Revenue Requirement.

Table 5.5. Payments for Refunding Escrow Funds

Bond Series		Total Refunding Escrow	Allocation % Regional for the Bond	Proportional annual use (PAU) or Adjusted PAU		Total Allocated to Wholesale
2010 Series D	$	12,427,875	97.23 %	69.94 %	$	8,451,286
2012 Series A		4,330,000	91.17 %	69.94 %		2,761,504
2017 Series A		2,353,500	99.46 %	69.94 %		1,637,149
2017 Series C		1,373,125	100.00 %	69.76 %		957,892
					$	13,807,831

(e) Revenue-Funded Capital Projects – Water Enterprise

The following is a summary of the wholesale share of appropriations for regional revenue-funded capital projects under the Water Enterprise for the year ended June 30, 2021.

Table 5.6. Revenue-Funded Capital Projects – Water Enterprise

Project Description		Appropriations	Allocation %		Wholesale share
Buildings & Grounds	$	(567,375)	69.94%	$	(396,822)
Water Transmission		(4,717,212)	69.94%		(3,299,218)
Water Treatment		(651,830)	69.94%		(455,890)
Watershed & Land Management		19,713,316	69.94%		13,787,493
525 Golden Gate - Water Enterprise Share		(26,079)	69.94%		(18,240)
525 Golden Gate - Direct Wholesale Share		(215)	100.00%		(215)
Fiscal Year 2020-21 Total	$	13,750,605		$	9,617,108

(f) Revenue-Funded Capital Projects – Hetch Hetchy Share

The following is a summary of the wholesale share of appropriations for Hetch Hetchy Water revenue-funded capital projects for the year ended June 30, 2021.

Table 5.7. Revenue-Funded Capital Projects – Hetch Hetchy Share

Project Description	Appropriations	Allocation %	Wholesale Share
525 Golden Gate - Hetchy Water Share	$ (3,703)	69.76 %	$ (2,583)
Fiscal Year 2020-21 Total	$ (3,703)		$ (2,583)

(g) Excess Accumulation of Unexpended and Unencumbered Appropriation

Collections for revenue-funded regional capital assets are based on appropriation rather than actual expenditures. To prevent excess accumulation of unexpended and unencumbered appropriation, WSA Section 6.08 requires a review and adjustment of the Wholesale Revenue-Funded Capital Fund balance.

As of June 30, 2021, the Wholesale Revenue-Funded Capital Fund balance is $727,181 more than the target amount based on cumulative annual appropriations and expenditures. This excess balance is transferred to the Balancing Account. Activity in the Wholesale Revenue Funded Capital Fund is shown in the table below.

Table 5.8. Annual Activity in Wholesale Capital Fund

	FY 2021-22
Beginning Wholesale Capital Fund Balance:	$ 62,212,090
Annual Appropriation	9,614,525
Annual Expenditures	(14,865,227)
Interest Earnings	405,190
Subtotal Balance Before Transfers	57,366,578
Amount Encumbered as of June 30, 2021	(17,785,484)
Unencumbered Balance Before Transfers	$ 39,581,094

Table 5.9. True-Up of Balance in Wholesale Capital Fund

Lesser of		
Target Balance, or	$ 38,853,912	
Cumulative Unspent Wholesale Capital Fund	58,813,986	
Target Balance		38,853,912
(Less) Unencumbered Balance Before Transfer		(39,581,093)
Deficiency/(Excess) in Reserve		(727,181)
Lesser of		
$4,000,000 or	$ 4,000,000	
Calculated Reserve Deficiency	(727,181)	
Wholesale Capital Fund, Before Adjustments		57,366,578
Transfer From/(To) Balancing Account		(727,181)
Ending Total Balance		56,639,397

(6) Wholesale Revenue Billings

During the year ended June 30, 2021, the SFPUC billed a total of $275,113,886 (net of amounts remitted to BAWSCA) in wholesale revenue for costs of service associated with deliveries from the regional water system. This total includes $2,055,966 in wholesale revenue billings associated with customers who did not meet their minimum purchase requirements (note (1)(e)). As applicable, a portion of these billings relate to deposits by the Wholesale Customers to meet their Wholesale Revenue Coverage Reserve and Working Capital Reserve requirements per Article VI, Section 6.06 and Section 6.07 of the WSA, respectively. For the year ended June 30, 2021, the balance in the Wholesale Revenue Coverage Reserve was lower than required, and so $2,431,211 was transferred to the Wholesale Revenue Coverage Reserve and Working Capital Reserve from the Balancing Account, decreasing total revenues for the Fiscal Year. The net amount billed after transfer from the Coverage Reserve, and which is applied to the revenue requirement, is $272,682,675.

Gross and net wholesale revenue billings are summarized below:

Table 6.1. Wholesale Revenue Billings

Gross wholesale amounts billed – net of adjustments	$ 273,057,919
Imputed water sales from minimum purchase requirements	2,055,966
Subtotal	275,113,885
Transfer from wholesale revenue coverage reserve	(2,431,211)
Net wholesale revenues billed	$ 272,682,674

(7) Wholesale Revenue Coverage Reserve

(a) Activity in the Wholesale Revenue Coverage Reserve During the Year Ended June 30, 2021

During the year ended June 30, 2021, $2,431,211 was transferred to the Wholesale Revenue Coverage Reserve in accordance with Article VI, Section 6.06 of the WSA. As of June 30, 2021, the Wholesale Revenue Coverage Reserve balance was $37,562,766, representing total deposits since July 1, 2009.

Table 7.1. Wholesale Revenue Coverage Reserve

		Wholesale revenue coverage reserve
Balance, June 30, 2020	$	35,131,555
Deposits to wholesale revenue coverage reserve (note 2a)		2,431,211
Balance, June 30, 2021	$	37,562,766

(b) Net Interest on Wholesale Coverage Reserve

As of July 1, 2020, the Wholesale Revenue Coverage Reserve amount exceeded the Working Capital Requirement of 60 days of the wholesale share of Operations and Maintenance, Administrative and General, and Property Taxes, as shown in the below table. Net interest of $709,172, calculated as the annual interest on the Wholesale Revenue Coverage Reserve less any Working Capital Requirement not met, is credited to the Balancing Account in favor of the Wholesale Customers during the year ended June 30, 2021, in accordance with Article VI, Section 6.06 of the WSA.

Table 7.2. Net Interest on Wholesale Coverage Reserve

		Debt service coverage requirement	Working capital coverage requirement	Net interest
Calculation of adequacy of reserve requirement				
Wholesale revenue coverage reserve balance, July 1, 2020	$	35,131,555	35,131,555	
Coverage reserve requirement, July 1, 2020		(35,146,269)	(18,049,104)	
Coverage reserve excess (deficiency)	$	(14,714)	17,082,451	
Net interest due (to) from Wholesale Customers				(709,172)

(8) 2013 Rim Fire

In August 2013, the SFPUC's Hetch Hetchy Water and Power was challenged by the third largest fire in California history, the Rim Fire, in Stanislaus National Forest and Yosemite National Park, which burned over 250,000 acres. Through the U.S. Department of Homeland Security Federal Emergency Management Agency and the State of California Office of Emergency Services, federal and state funding is available on a cost-sharing basis to the City to help offset the costs of emergency work and the repair or replacement of facilities damaged by the Rim Fire. Additionally, many of the SFPUC assets impacted by the Rim Fire were insured.

For the fiscal year ending June 30, 2021, Hetch Hetchy incurred expenses of approximately $0.1 million, bringing cumulative total expenses related to facilities and infrastructure damage, and costs related to emergency response to approximately $24.9 million. Reimbursements to-date from insurance and federal and state grants totals approximately $13.2 million. The WRRs for the years ended June 30, 2014 through June 30, 2021 did not include complete allocation of the Rim Fire related costs because insurance reimbursements, government grants, and expenditures have not been finalized. SFPUC will finalize the allocation of Rim Fire related costs to Wholesale Customers once final expense amounts and related cost reimbursements are known. That allocation will include a proportional allocation of all reimbursements, and account for debt service already paid by the Wholesale Customers on any projects funded by bond series. An estimate of $2.3 million may be due from the Wholesale Customers.

(Continued)

(9) Wholesale Customer Review of Fiscal Years 2018-19 and 2019-20 Wholesale Revenue Requirement

Article VII, Section 7.06 of the WSA provides the Wholesale Customers the right to conduct a review of the SFPUC's calculation of the annual changes in the Balancing Account.

The Wholesale Customers and SFPUC entered into a settlement agreement on November 19, 2021, to resolve issues pertaining to the calculation of changes to the Balancing Account for Fiscal Year 2018-19, and on July 25, 2022, to resolve issues pertaining to the calculation of changes in the Balancing Account for Fiscal Year 2019-20. These settlement agreements resulted in adjustments described Statement to the Changes in the Balancing Account June 30, 2021 in Note (2)(b). This settlement agreement closed all outstanding issues from Fiscal Year 2018-19 and Fiscal Year 2019-20, with the exception of the items listed in note (10) below.

(10) Other Items Under Discussion

The following are items that are under discussion between the Wholesale Customers and the SFPUC. The discussion of these items and the path to resolution may have an impact on the calculation of the Wholesale Revenue Requirement.

(a) Implementation of WSA Asset Classification Amendment

Timing for implementation of the SFPUC adopted December 11, 2018 WSA amendments directly affecting the calculation of the Wholesale Revenue Requirement is still to be discussed and agreed upon. The SFPUC will share a plan for implementation of these amendments with Wholesale Customers before proceeding with implementation. While the other amendments which impact the WRR have been implemented, a true-up of expenditures relating to Hetch Hetchy Water asset classification remains outstanding as of Fiscal Year 2020-21.

WSA section 5.11 and definitions, section 5.12, and Attachment R were amended to clarify the classification of Hetch Hetchy Water assets. For the assets shown in the table below, the classification of operating expenses will remain as shown in the "Asset Classification" column, but specific capital project expenses, going forward and retroactively to the date shown in the table, will be reclassified. The methodology for implementing these changes, especially the required retroactive adjustment, will be discussed between the SFPUC and Wholesale Customers. Adjustments to the Balancing Account to reflect the revised capital classification will be incorporated as expediently as possible; the amount of adjustments is not known at this time.

Table 10.1. Capital Project Expenses Classification

Asset	Asset Classification	Project Classification
Lower Cherry Aqueduct	Joint	Water
Mountain Tunnel Interim Work	Joint	Water
Mountain Tunnel Long Term Repairs	Joint	Water
Mountain Tunnel Flow Control Facility	Joint	Joint
Kirkwood Penstock	Power	Joint
Moccasin Penstock	Power	Joint
Moccasin Lower Dam	Water	Joint

(b) True-up of Debt Service Allocation of WSIP Bonds

In the Fiscal Year 2009-10 7.06 Settlement Agreement, the parties agreed that the debt service allocation on bonds related to the Water System Improvement Project (WSIP) may need to be adjusted to properly reflect the final use of proceeds. This adjustment, which would impact the allocation of debt service beginning in Fiscal Year 2009-10, is to occur at or near the completion of WSIP. As WSIP is over 98% complete by dollar value as of Fiscal Year 2020-21, the SFPUC expects to incorporate this adjustment in the Fiscal Year 2021-22 Wholesale Revenue Requirement. This adjustment is expected to change the allocation of bonds 2009 Series B and 2010 Series E, and is estimated at $3,549,471 owed by the wholesale customers.

KPMG

Yano Accountancy Corporation

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

September 13, 2023

To the Honorable Mayor, Members of the Board of Supervisors,
and Management of the City and County of San Francisco,
and the Wholesale Customers:

In planning and performing our audit of the Statement of Changes in the Balancing Account (the statement) of the San Francisco Water Enterprise (Water Enterprise) and Hetch Hetchy Water and Power (Hetch Hetchy), under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC), for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered SFPUC'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 the SFPUC's internal control. Accordingly, we do not express an opinion on the effectiveness of the SFPUC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a combination of deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency described in Finding 2021-1 to be a material weakness.

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.

SFPUC's written response to the material weakness was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Restriction on Use

This communication is intended solely for the information and use of the Mayor, Board of Supervisors, San Francisco Public Utilities Commission, City Management, and the Wholesale Customers, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Yano Accountancy Corporation

Finding 2021-1

Criterion

Water Supply Agreement Article V, Section 5.02E describes two general principles of allocating costs to the Wholesale Customers, and states in part that "…(1) the Wholesale Customers should not pay for expenses of SFPUC operations from which they receive no benefit and (2) the Wholesale Customers should pay their share of expenses incurred by the SFPUC in delivering water to them…"

Observations and Effects

We observed the following during the audit of the Balancing Account. SFPUC management agreed with these observations, and accordingly recorded audit adjustments and changed related disclosures.

1. The wholesale share of capital cost contribution – new regional assets – debt-funded was not summarized correctly, resulting in a $26,387,000 misstatement in the Balancing Account as of June 30, 2021. SFPUC recorded an audit adjustment to the Balancing Account of $26,387,000 in favor of the Retail Customers.
2. The wholesale share of actual revenue-funded capital expenditures was misstated by $1,152,000. SFPUC recorded an audit adjustment of $1,152,000 in favor of the Wholesale Customers.
3. The overall wholesale revenue requirement was misstated by $235,000 because SFPUC did not calculate the Proportional Annual Use (PAU) and Adjusted Proportional Annual Use (APAU) percentages correctly. SFPUC and the Wholesale Customers jointly investigated the discrepancy and agreed on adjusted higher PAU and APAU percentages. SFPUC recorded an audit adjustment to the Balancing Account of $235,000 in favor of the Retail Customers.
4. The paid time off adjustment was not calculated correctly, resulting in a $34,000 misstatement in the Balancing Account as of June 30, 2021. SFPUC recorded an audit adjustment to the Balancing Account of $34,000 in favor of the Wholesale Customers.

Total audit adjustments recorded by SFPUC were $25,436,000 in favor of the Retail Customers.

Cause

The cause of the first, third, and fourth observations was inadequate controls over spreadsheet calculations to ensure their accuracy. The cause of the second observation was inadequate review of the general ledger to determine which amounts should be recorded as revenue-funded capital expenditures.

Recommendation

SFPUC should improve its review procedures to ensure that account balances and expenditure summaries are properly calculated and classified in the Balancing Account.

Views of SFPUC Management

SFPUC management concurs with the findings. To prevent items 1, 3, and 4 in the future, the SFPUC has already implemented additional controls in the spreadsheets used to calculate the Wholesale Revenue Requirement to check for or automatically correct these specific errors and is adding similar checks to other portions of the calculation as appropriate. To prevent item 2, the SFPUC is providing additional training for staff who prepare these schedules and performing additional cross-checks to alternative data sources for quality control.