

# Affordability Policy – Power Update

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# Agenda

1. Affordability Policy Background
2. Hetch Hetchy Power
  - Metric Analysis
  - Target Options
3. CleanPowerSF
  - CleanPowerSF Unique Structure
  - Metric Factors & Analysis
4. Next Steps

# Affordability Policy Background



# Need for Affordability Metrics and Target

## Existing guidance directs the SFPUC to consider the impact of bills on customers

### SFPUC Ratepayer Assurance Policy

*“The Commission will consider SFPUC service affordability for all its customers. Prudent operating and capital planning ties annual spending to system demand and intergenerational equity, enabling financial engineering and reducing costly emergency expenditures. Rate design should also consider the burden imposed by SFPUC bills on low-income customers.”*

### San Francisco Charter Section 8B.125

*“The Commission shall... Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low-income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable state and federal laws.”*

## San Franciscans face general affordability challenges

- San Francisco has the 4<sup>th</sup> highest cost of living of any US urban area<sup>1</sup>
- A significant portion of San Franciscan’s income goes to basic necessities
  - The median 4-person household in San Francisco makes \$155,850<sup>2</sup>
  - 2 working adults with 2 children need \$183,408 for a “living wage” covering housing, healthcare, childcare, food, transportation, and taxes<sup>3</sup>
- Some SFPUC customers have trouble paying their utility bills – delinquencies grew significantly during the pandemic

1) Council for Community & Economic Research Quarter 2 2024 Cost of Living Index

2) SF Mayor’s Office of Housing & Community Development 2025 Area Median Income

3) Massachusetts Institute of Technology 2025 Living Wage Calculator

# Key Considerations in Developing Policy

## **Integrated into existing budget and financial planning process**

- Minimizes administrative effort and increase likelihood of targets mattering in decision-making
- Rely on simple to calculate metrics

## **Metrics and targets tailored to our service area**

- High cost of living and income inequality vs. high average income
- Retail residential households are indicative of cost to entire customer base

## **Not a hard limit, but an early warning system to drive action**

- Both a challenge and an opportunity to communicate
- Goal is to make changes to meet targets, but sometimes tradeoffs may be necessary

## **Cover entire agency**

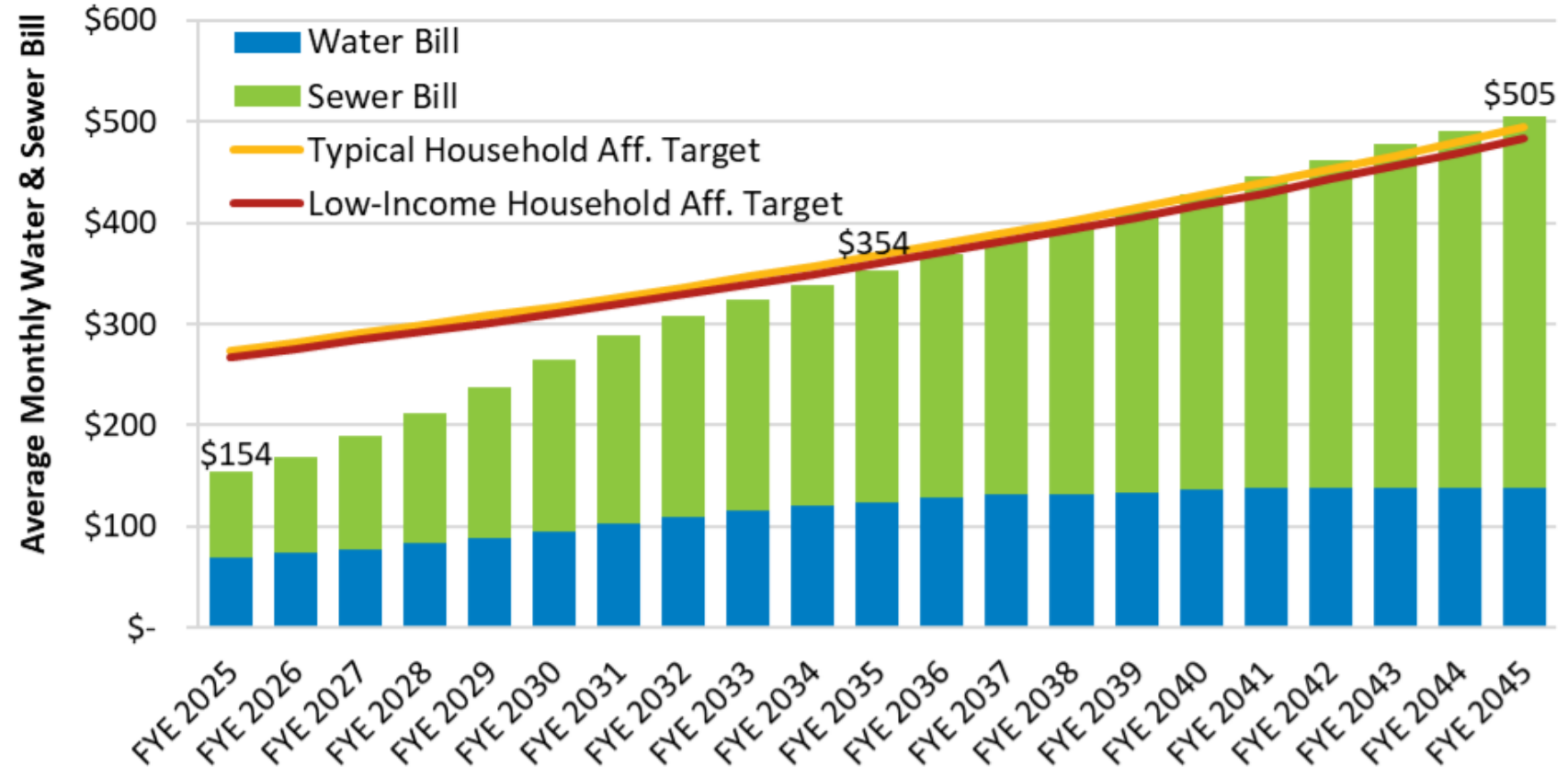
- Started with targets for water/sewer, power expected soon

# Preexisting Affordability Policy

- [Affordability Policy](#) available on website
- Approved by Commission in November 2023
- Industry-leading – no other utilities we surveyed have anything like this
- Policy includes three pieces: 1) process, 2) metric, 3) target
- Used for two years to evaluate affordability of combined water/sewer bills

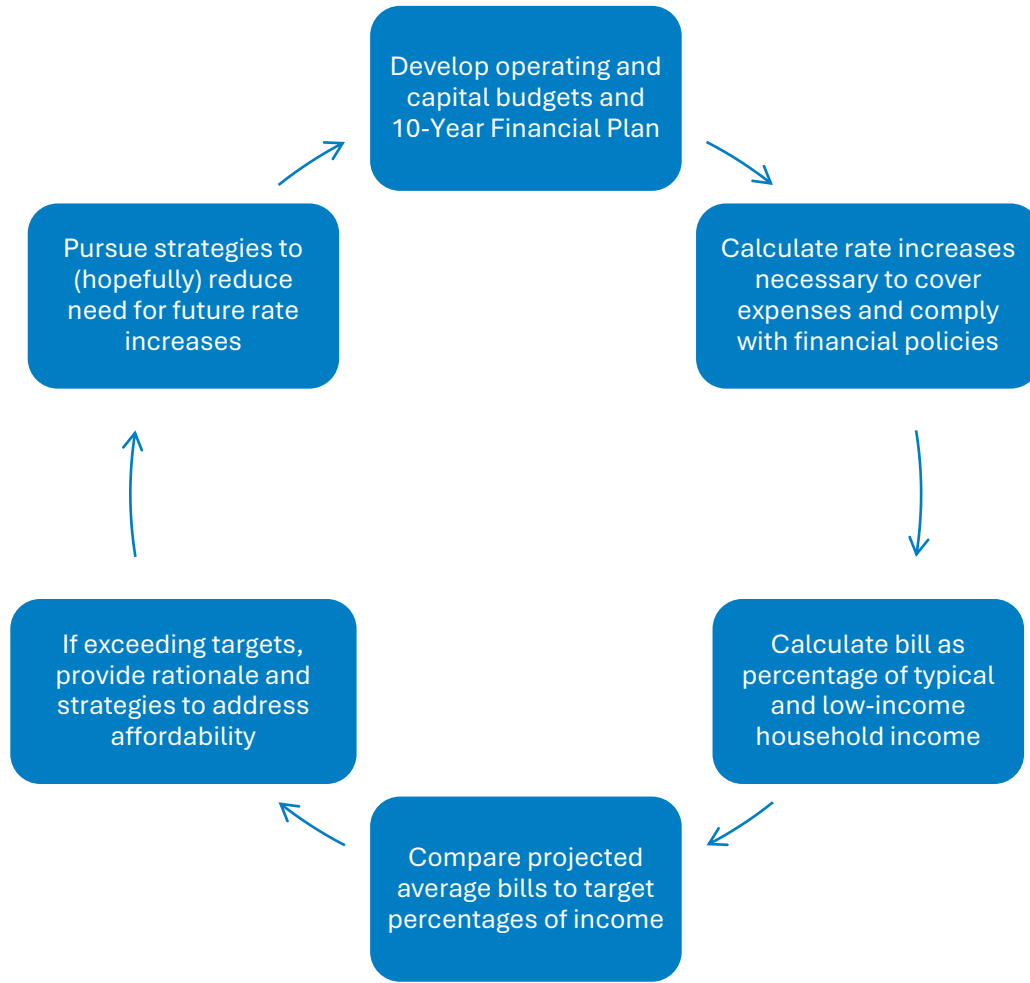
# Preexisting Affordability Policy – Targets Drawn

- Forecasted to exceed affordability targets outside of 10-year window
- Early warning of affordability issues 10+ years out allows time to adjust in capital planning



\* Using approved rates to FYE 2035, all others forecast/planning only

# Affordability Evaluation Process



- This iterative process is the core of the Affordability Policy
- Future affordability projections allow time to change course



# Defining Terms Continued

## Income Measures

### Income quintiles and median household income (MHI)

Ranks all households in SF in order of lowest -> highest income

No differentiation by household size

Example: 20<sup>th</sup> percentile income = 20% of households in San Francisco make at or below this amount

### Area median income (AMI) and % of AMI

Measures different household sizes at different income thresholds, in reference to the median income for that size of household

Used as eligibility for affordable housing and some benefit programs

Example: 80% AMI for a 3-person household = median annual income among 3-person households in SF \* 80%

## Affordability Policy Terms

**Metric = a formula; something you measure**

**Target = a specific value of the metric that you aim to stay above or below**

# Hetch Hetchy Power



# Peer & Industry Research

## Electric Industry Measures of Energy Burden

**Reviewed research from 2022 External Affairs affordability consultant, industry associations, and think tanks**

### **Found that:**

No peer utilities we identified – either municipal or investor-owned – have explicit affordability metrics or targets

Most widely-referenced metric: a residential power bill >6% of income as high energy burden; >10% as severe energy burden; traced to the American Council of an Energy Efficient Economy (ACEEE)

Power Enterprise historically considers affordability relative to PG&E

## Industry Research is of Limited Use for Hetch Hetchy

### **Energy burden primarily measured at the national level**

Not representative of SF high cost of living and income inequality (ex. 6% of high SF incomes would label a very large power bill as “affordable”)

Hetch Hetchy rates include many additional costs like General Fund subsidies, streetlights, California regulatory mandates

### **Comparison to PG&E or peers’ actual rates likely insufficient**

Cannot accurately project other utilities’ rate increases over many years, making long-term planning hard

PG&E has a negative public perception around rates and affordability – “as good as they are” not a compelling perspective

# Determining the Customer Base

## Who Are We Referencing When We Say HHP Customer Base?

**HHP is made up of primarily commercial customers (mostly City departments)**

No real way to define “affordable” for commercial customers due to variations in energy usage (small retail storefront vs. large industrial facility)

Many General Fund customers are still subsidized

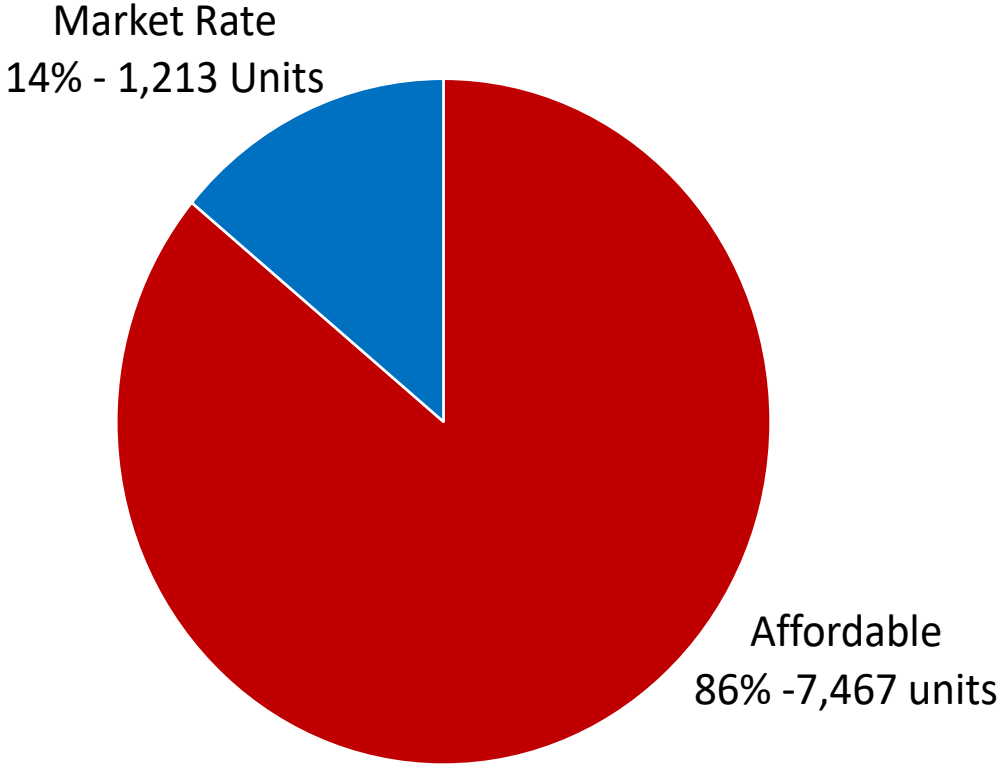
## **Residential customer base is small and primarily affordable housing**

How many HHP units are affordable housing compared to market rate?

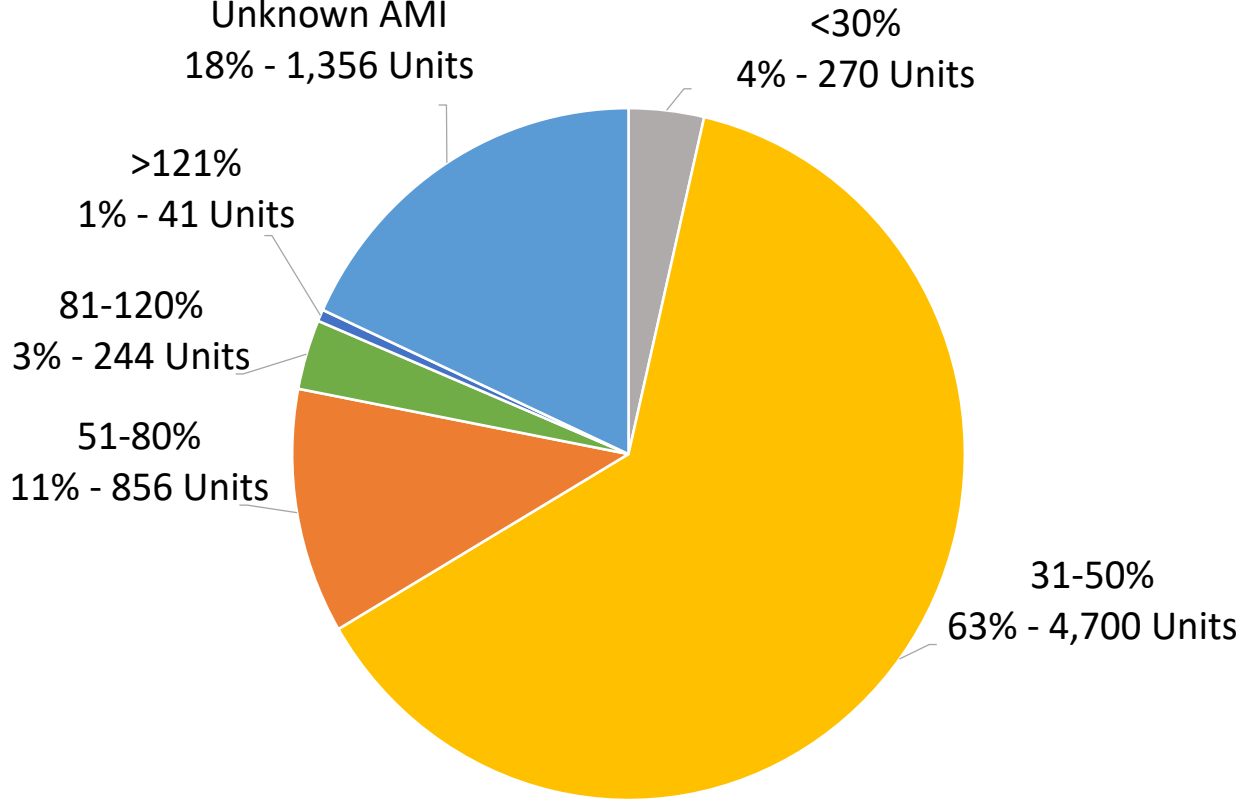
What are the demographics of these affordable housing units broken down by Area Median Income (AMI)?

# Customer Base Analysis Findings

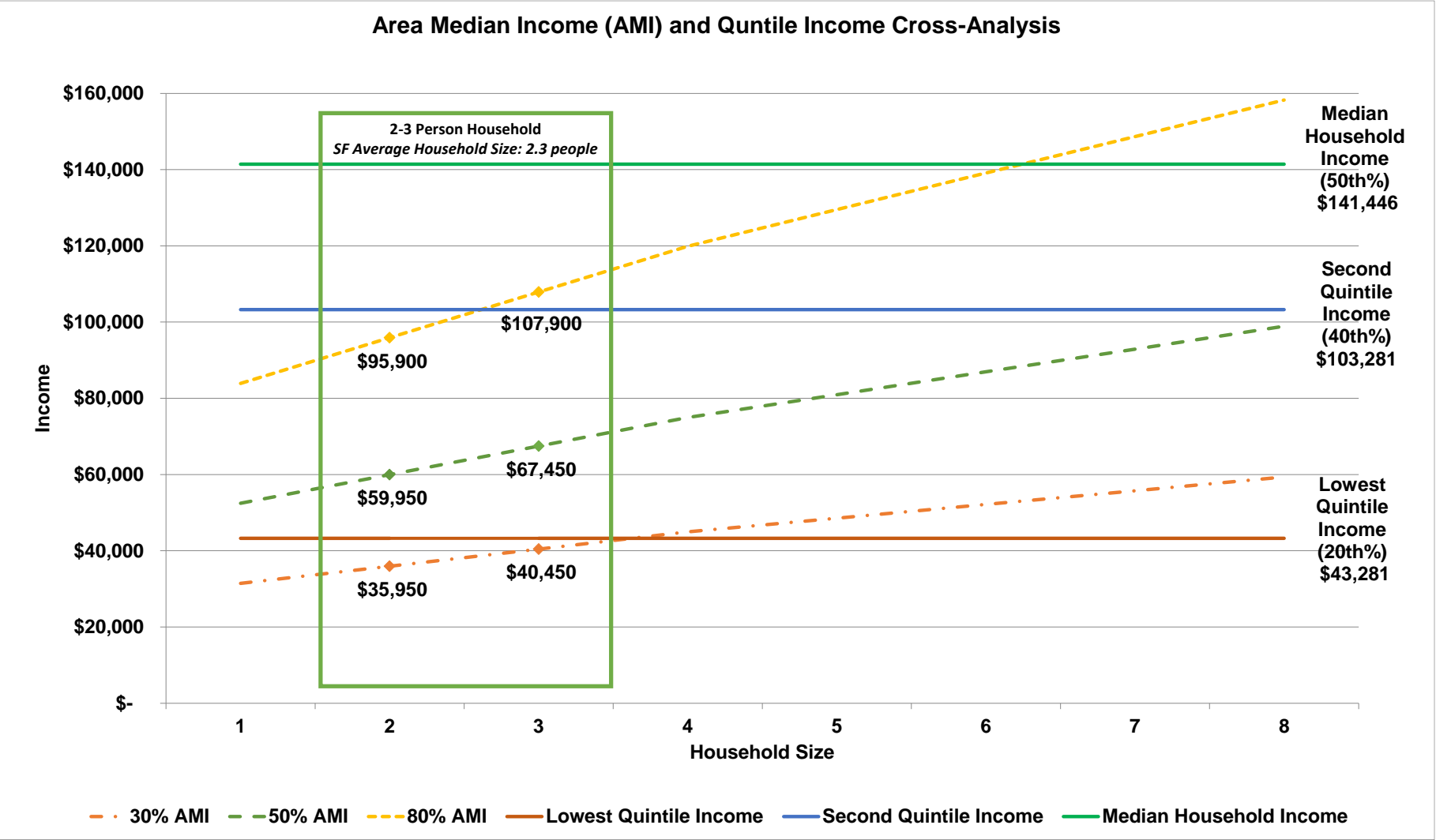
HHP Residential Customer Base Breakdown:



Affordable Units Broken Down by AMI Threshold:



# Representative Households Align with Customer Base



# HHP Proposed Metrics

## Average Residential Power Bill...

**Use default, un-discounted rate code (R-1E, currently)**

**Use historic billing data to calculate average monthly summer and winter usage**

Using data from R-1E and R-2E customers (all-electric)

Forecast based on average of past 3 years or more specific data, if available

**... as a % of**

## Typical Household Income (40<sup>th</sup> Percentile Income)

Target will not exceed \_\_\_% of the 40<sup>th</sup> Percentile Income

## Low-Income Household Income (20<sup>th</sup> Percentile Income)

Target will not exceed \_\_\_ % of the 20<sup>th</sup> Percentile Income

## Advantage of Using These Two Metrics

**Representative of residential customer base:** Both metrics combined are at or below income of 77% of affordable HHP units; majority

**Consistency with preexisting Water/Sewer Affordability Policy – uses these same households**

Allows us to set a higher % target for the low-income household, which communicates to ratepayers that SFPUC understands a higher % of low-income customers incomes go towards paying their power bills; these customers are more greatly affected by rate increases

# HHP Proposed Target Options

Currently considering multiple options for the target bill as a % of income for each representative household

## Example:

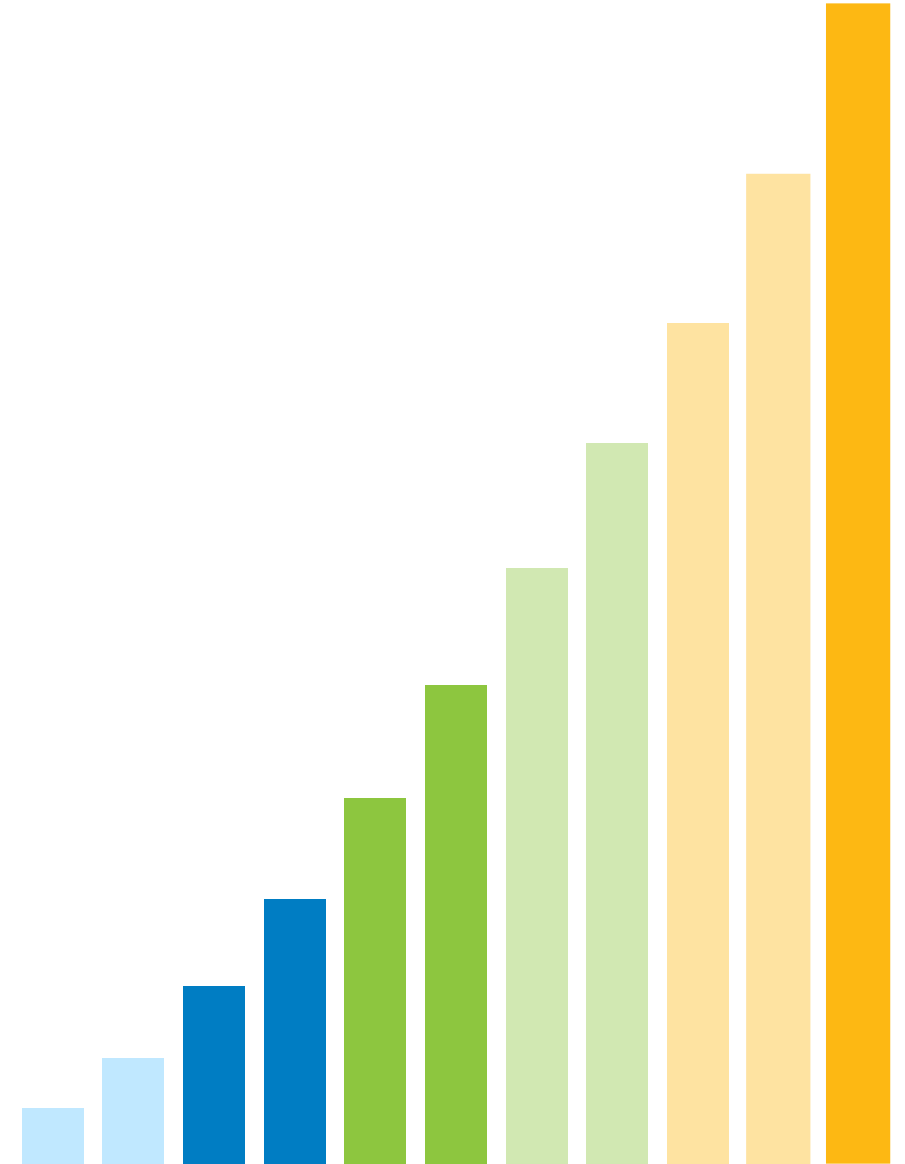
- 1.5% of the Typical Household Income (40th Percentile)
- 3.5% of the Low-Income Household Income (20th Percentile)

## Issues to consider:

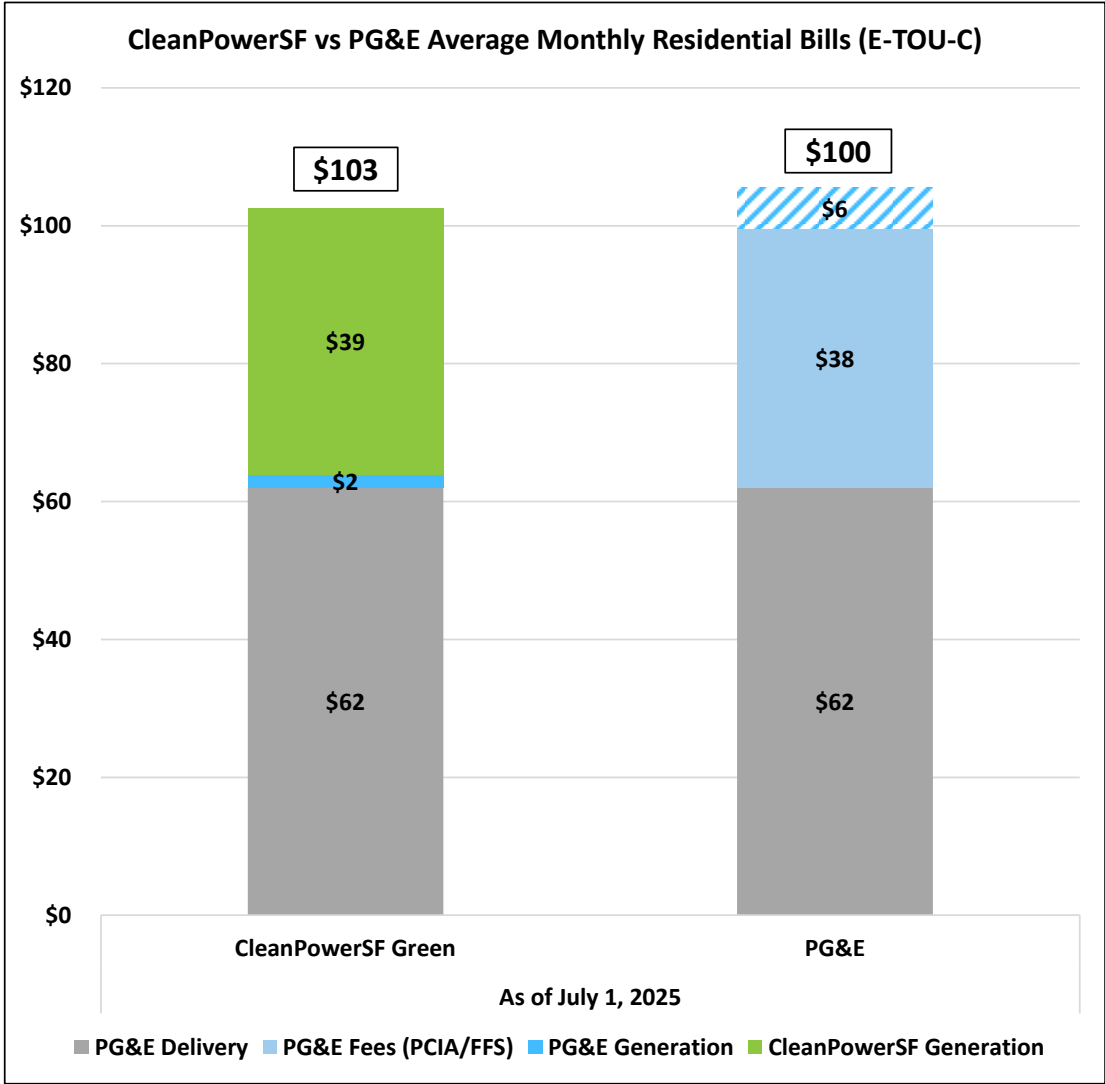
- Places a meaningful upper limit on what is considered “affordable”
- Allows room for growth in costs
- Balances



# CleanPowerSF



# Community Choice Aggregator Unique Structure



## CleanPowerSF Does Not Have Full Control of Bill

- How do we show affordability as meaningful to customers **AND** within our control?

## Difficulties Tied to PG&E

- PCIA = costs imposed on CleanPowerSF customers and not borne by PG&E customers
  - PG&E’s customers pay separate PCIA that is currently negative (a bill discount!)
- Variability in increases make rate projections difficult

# CCA Peer Outreach

## Sent affordability questions to CalCCA Billing Committee

- Found that:
  - While many identified affordability as a priority...
    - **no CCAs had explicit affordability metrics/targets**
  - Affordability typically defined relative to the Investor-Owned Utility (IOU)
    - “PG&E Minus Method” from Peninsula Clean Energy
  - Specific focus on generation portion of the bill
  - Heavy reliance on bill discounts:
    - Customer Assistance Programs (CAP)
    - Equity customer segments (geographical region)

# Proposed Metrics for CleanPowerSF

To reflect the CleanPowerSF's unique situation, the project team proposes:

- **Using two affordability metrics:**
  - Long-term
    - Looks at the entire CleanPowerSF bill, including the PG&E controlled portion
    - % of income over a 20-year forecast used for budgeting/financial modeling purposes
  - Short-term
    - Focuses only on the CleanPowerSF generation portion of the bill, and directly compares to PG&E generation
    - Forecasted 1-2 years out; primarily used during rate setting discussions

# Long-Term Affordability Metric

## Average Residential Power Bill...

- CleanPowerSF Green residential rate (E-TOU-C)
- Use billing data to calculate average monthly bills
  - CleanPowerSF Rates as of 1/1/2025
  - Forecast based on average of seasonal energy pulled directly from SFPUC rates book

... as a % of

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# Short-Term Affordability Metric & Target

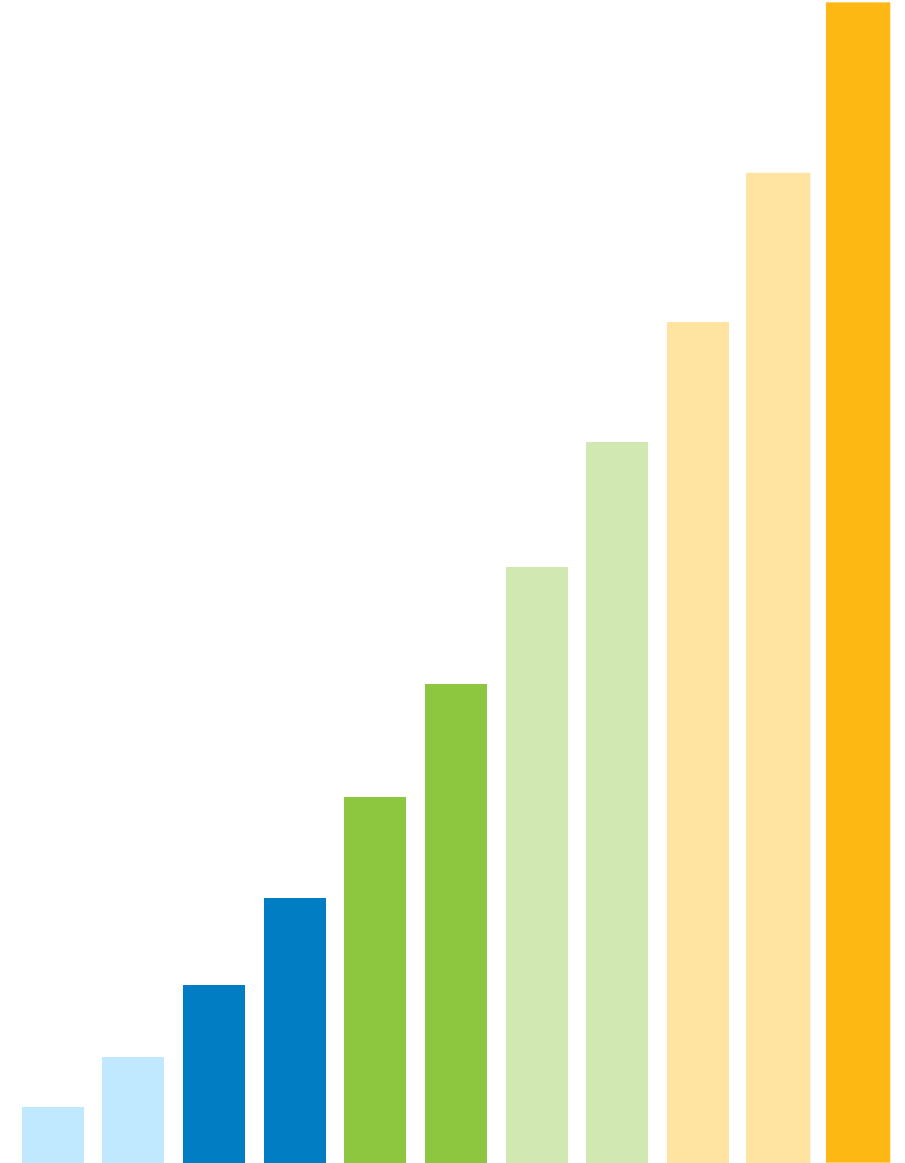
## Directly Reference PG&E Generation Rates

- Using average CleanPowerSF historic demand and energy usage
- Compare total charges for customer on CleanPowerSF vs. PG&E

## Looking into factors such as:

- Which Rate Codes to observe (all?, most common?, residential?)
- Weighted average bill vs. solely tariffs
- Just generation rates/bills or generation + PCIA?
- What % of our rates relative to PG&E feels meaningful while also not limiting ourselves in case of cost increases?
- What to do if the target is not met (rebalancing rates? reducing rates while complying with other financial policies?)

# Next Steps



# Tentative Timeline

