

**SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER**

Statement of Changes in the Balancing Account and
Independent Auditor's Report

Year Ended June 30, 2024

**SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER**
Statement of Changes in the Balancing Account
Year Ended June 30, 2024

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Independent Auditor's Report

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

Opinion

We have audited the Statement of Changes in the Balancing Account (Statement) of the San Francisco Water Enterprise and Hetch Hetchy Water and Power, under the jurisdiction of the San Francisco Public Utilities Commission (SFPUC), for the year ended June 30, 2024, and the related notes to the Statement as listed in the table of contents.

In our opinion, the accompanying Statement referred to above presents fairly, in all material respects, the changes in the Balancing Account for the year ended June 30, 2024 in accordance with 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statement section of our report. We are required to be independent of the SFPUC 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 opinion.

Emphasis of Matter – 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 U.S. generally accepted accounting principles, to comply with the financial reporting provisions of the WSA. As a result, the statement may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Statement

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

Auditor's Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 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 Statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Statement, 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 Statement.
- 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 the SFPUC'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 Statement.

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.

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.



Walnut Creek, California
May 6, 2025

**SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER**
Statement of Changes in the Balancing Account
Year ended June 30, 2024

	Total	Amount Allocated to the Wholesale Customers
Wholesale Revenue Requirement:		
Operation and Maintenance Expenses:		
San Francisco Water Enterprise (Water Enterprise):		
Source of supply	\$ 39,632,063	\$ 22,038,266
Pumping	2,558,029	—
Treatment	59,897,831	39,794,076
Transmission and distribution	77,379,159	19,571,251
Customer accounts	11,694,082	229,671
Total Water Enterprise Operation and Maintenance Expenses	\$ 191,161,164	\$ 81,633,264
Hetch Hetchy Water and Power (Hetch Hetchy):		
Hetch Hetchy Operation and Maintenance Expenses	\$ 180,400,458	\$ 21,899,271
Administrative and General (A&G) Expenses:		
Countywide cost allocation plan:		
Water Enterprise	3,870,669	1,652,776
Hetch Hetchy	1,545,489	467,008
San Francisco Public Utilities Commission (Bureaus):		
Water Enterprise	42,626,768	18,747,910
Hetch Hetchy	21,607,903	3,896,064
Other A&G – Water Enterprise	49,706,759	9,808,730
Other A&G – Hetch Hetchy	34,191,633	3,977,026
Compliance audit	58,204	29,102
Total Administrative and General Expenses	\$ 153,607,425	\$ 38,578,616
Property Taxes (Outside City Only):		
Water Enterprise	1,967,881	1,325,368
Hetch Hetchy	596,380	180,211
Total Property Taxes	\$ 2,564,261	\$ 1,505,579
Capital Cost Contribution – New Regional Assets:		
Debt-funded capital projects:		
Water Enterprise (note 4a)		150,479,326
Hetch Hetchy Water (note 4a)		5,177,158
Closeout of Interest Earnings (note 4b)		(267,585)
Revenue-funded capital projects:		
Water Enterprise (note 4c)		17,381,870
Hetch Hetchy Water (note 4d)		27,841
True-up of Wholesale Capital Fund (note 4e)		4,000,000
Total Capital Cost Contribution		\$ 176,798,610
Total Wholesale Revenue Requirement		\$ 320,415,340

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

**SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER**
Statement of Changes in the Balancing Account (Continued)
Year ended June 30, 2024

Balance due from Wholesale Customers, July 1, 2023	\$	9,746,093
Fiscal Year 2020-21 7.06 Agreement (note 2a)		(5,701)
Adjusted Balance due from Wholesale Customers, July 1, 2023	\$	9,740,392
Interest on Adjusted Beginning Balance		332,147
Net Wholesale Revenue Billed (note 5)		(319,168,674)
Deposit to Wholesale Coverage Reserve (note 6a)		1,692,800
Calculated Wholesale Revenue Requirement		320,415,340
Fiscal Year 2022-23 Net Interest on Wholesale Coverage Reserve / Working Capital (note 6b)		(1,007,139)
Balance due from Wholesale Customers, June 30, 2024	\$	12,004,865
Wholesale revenue coverage reserve (surplus), as of June 30, 2024	\$	(1,205,807)

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

**SAN FRANCISCO WATER ENTERPRISE AND
HETCH HETCHY WATER AND POWER**
Notes to Statement of Changes in the Balancing Account
Year ended June 30, 2024

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 certain wholesale customers in the counties of San Mateo, Santa Clara, and Alameda (Wholesale Customers), as represented by the Bay Area Water Supply and Conservation Agency (BAWSCA), ratified the November 2021 Amended and Restated Wholesale Water Supply Agreement (WSA) in January 2023. The term of the WSA began on July 1, 2009 and shall end on June 30, 2034, with two options for five-year extensions, and contains provisions on rate-setting (including emergency and drought-pricing adjustments), accounting, and dispute resolution. The WSA has a supply assurance of 184 million gallons per day (mgd). During the period from 2009 to 2028, the WSA limits the quantity of water delivered to 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 resources 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 position; revenues are recognized when earned, and expenses are recognized when liabilities are incurred. For copies of the Water Enterprise and Hetch Hetchy audited financial statements for the year ended June 30, 2024, please refer to the SFPUC's website at <https://www.sfpuc.gov/about-us/reports/audited-financial-statements-reports> or contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

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.

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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 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. 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 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.

WSA Attachment J prescribes the calculation methodology to determine Proportional Annual Use. At the end of each fiscal year, the SFPUC and BAWSCA review and approve Table J-1 to memorialize 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.

e) Minimum Annual Purchases

Alameda County Water District and the cities of Milpitas, Mountain View, and Sunnyvale have agreed to a minimum annual purchase 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.

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.

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(s). 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

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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 Adjusted Proportional Annual Use.

Fifty percent of the cost of the compliance audit 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 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.

SFPUC and the Wholesale Customers have clarified certain procedures relating to the administration of the accounting, debt administration, and capital cost contribution components of Articles V and VI as part of Agreements for various fiscal years. For copies of the Agreements (Article VII, Section 7.06 of the WSA), please contact the Chief Financial Officer, San Francisco Public Utilities Commission, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102.

h) 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

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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.

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, as amended.

i) 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.

j) 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 4a)).

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 typically treated as additional funds available for project expenditures; in some cases they may be allocated as credits against gross debt service (see Note 4b).

k) 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

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(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.

Revenues 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. Per the Fiscal Year 2015-16 WSA Section 7.06 Agreement, cash receipts in a fiscal year are credited proportionally to the Wholesale Customers based on the underlying debt service allocation of each series.

l) 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) 35% 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 in the subsequent fiscal year 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. No adjustment is made to interest earnings for a year-end deficiency in the Debt Service Coverage requirement.

2) Balancing Account under the WSA

a) WSA Section 7.06 Agreement – Fiscal Year 2020-21

In accordance with Article VII, Section 7.06 of the WSA, the SFPUC and the Wholesale Customers reached an agreement on March 13, 2024 relating to costs attributable to the fiscal year ended June 30, 2021 (see Note 1g). The following are adjustments to the June 30, 2023 beginning Balancing Account agreed to by both parties to the WSA.

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Table 2.1. FY 2020-21 Section 7.06 Agreement Adjustments to Beginning Balancing Account

Fiscal Year 2020-21 Section 7.06 adjustments:	
Hetch Hetchy Water & Power COVID-19 Disaster Service Workers	\$ 6,864
Interim Financing Costs Update	<u>(12,413)</u>
Subtotal Fiscal Year 2020-21 Section 7.06 Adjustments	
- Due (to)/from Wholesale Customers	<u>\$ (5,549)</u>
Interest on Adjustments	
FY 2021-22 interest at 0.60%	(33)
FY 2022-23 interest at 2.12%	<u>(118)</u>
Subtotal Interest on Section 7.06 Adjustments	
- Due (to)/from Wholesale Customers	<u>\$ (152)</u>
Total Fiscal Year 2020-21 Section 7.06 Adjustments	
- Due (to)/from Wholesale Customers	<u><u>\$ (5,701)</u></u>

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

Fiscal Year	Proportional Annual Use		Adjusted Proportional Annual Use	
	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
2021-22	68.70	31.30	68.51	31.49
2022-23	66.23	33.77	66.05	33.95
2023-24*	67.35	32.65	67.15	32.85

*adjusted for imputed water sales

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4) 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, 2024, outstanding debt related to the construction of new regional capital assets included 9 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. The following tables summarize the net debt service expenditures on outstanding debt related to the construction of new regional assets that were determined to be allocable to the Retail and Wholesale Customers.

Net Annual Debt Service is reduced by payments made from proceeds of indebtedness, earnings on bond proceeds used to pay debt service, and debt-related governmental grants. In the year ended June 30, 2024, this included Build America Bond Subsidy (BABS) revenues on the 2010 Series B, 2010 Series E, and 2010 Series G taxable bonds and interest earnings on funds held by the trustee and applied to reduce debt service payments.

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Table 4.1. Adjustments to Debt Service Interest

	Interest and Other Cash on Hand	Build America Bond Subsidy	Total Adjustments to Interest
Water Enterprise Bonds			
2010 Series B	\$ (198,398)	\$ (6,523,009)	\$ (6,721,407)
2010 Series E	(1,019,159)	(6,335,261)	(7,354,420)
2010 Series G	(246,223)	(8,101,165)	(8,347,388)
2015 Series A/2006 Series A Refunding	(20,780)	—	(20,780)
2015 Series A/2009 Series A Refunding	(9,246)	—	(9,246)
2016 Series A/2009 Series A Refunding	(7,347)	—	(7,347)
2016 Series A/2009 Series B Refunding	(15,761)	—	(15,761)
2016 Series A/2010 Series F Refunding	(12,185)	—	(12,185)
2016 Series C	(9,717)	—	(9,717)
2017 Series A	(2,549)	—	(2,549)
2017 Series D/2011 Series A Refunding	(7,484)	—	(7,484)
2017 Series D/2012 Series A Refunding	(2,400)	—	(2,400)
2017 Series G/2011 Series A Refunding	(10,339)	—	(10,339)
2019 Series A/2011 Series A Refunding	(6,767)	—	(6,767)
2019 Series A/2012 Series A Refunding	(5,495)	—	(5,495)
2020 Series A	(4,479)	—	(4,479)
2020 Series B	(1,883)	—	(1,883)
2020 Series E/2012 Series A Refunding	(2,075)	—	(2,075)
2020 Series E/2017 Series A Refunding	(3,325)	—	(3,325)
2020 Series F/2017 Series B Refunding	(889)	—	(889)
2023 Series C/2015A/2006 Series A Refunding	(486)	—	(486)
2023 Series C/2016A/2009 Series A Refunding	(344)	—	(344)
2023 Series C/2016A/2009 Series B Refunding	(342)	—	(342)
2023 Series C/2017D/2011 Series A Refunding	(253)	—	(253)
2023 Series C/2017D/2012 Series A Refunding	(418)	—	(418)
2023 Series C/2019A/2011 Series A Refunding	(695)	—	(695)
2023 Series C/2019A/2012 Series A Refunding	(485)	—	(485)
2023 Series C/2020E/2012 Series A Refunding	(785)	—	(785)
2023 Series C/2020E/2017 Series A Refunding	(16)	—	(16)
Subtotal Water Enterprise Bonds	<u>\$ (1,590,325)</u>	<u>\$ (20,959,435)</u>	<u>\$ (22,549,760)</u>
Hetch Hetchy Water Bonds			
2017 Series C	(2,265)	—	(2,265)
2017 Series F/2011 Series B Refunding	(784)	—	(784)
2020 Series D	(906)	—	(906)
2020 Series H/2017 Series C Refunding	(9,182)	—	(9,182)
Subtotal Hetch Hetchy Water Bonds	<u>\$ (13,137)</u>	<u>\$ —</u>	<u>\$ (13,137)</u>
Total Adjustments to Interest	<u>\$ (1,603,462)</u>	<u>\$ (20,959,435)</u>	<u>\$ (22,562,897)</u>

The Water Enterprise and Hetch Hetchy Water paid \$300,040,410 in gross debt service on the bonds listed in the table below during the year ended June 30, 2024. The gross debt

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service is decreased to \$273,056,455 as of June 30, 2024 when the adjustments to interest shown in Table 4.1 of \$22,562,897 are applied against the gross debt service payments.

Table 4.2. Debt Service Expenditures – New Regional Assets

	Principal	Net Interest	Total
Water Enterprise Bonds			
2010 Series B	\$ 13,245,000	\$ 12,891,781	\$ 26,136,781
2010 Series E	13,165,000	11,749,656	24,914,656
2010 Series G	–	16,079,777	16,079,777
2015 Series A/2006 Series A Refunding	16,835,000	11,909,939	28,744,939
2015 Series A/2009 Series A Refunding	11,235,000	1,554,129	12,789,129
2016 Series A/2009 Series A Refunding	730,000	9,768,153	10,498,153
2016 Series A/2009 Series B Refunding	11,300,000	11,219,739	22,519,739
2016 Series A/2010 Series F Refunding	11,560,000	5,850,315	17,410,315
2016 Series C	6,105,000	8,453,597	14,558,597
2017 Series A	2,445,000	1,170,076	3,615,076
2017 Series B	2,985,000	1,430,125	4,415,125
2017 Series D/2011 Series A Refunding	1,270,000	9,369,816	10,639,816
2017 Series D/2012 Series A Refunding	–	3,412,100	3,412,100
2017 Series G/2011 Series A Refunding	13,665,000	333,219	13,998,219
2019 Series A/2011 Series A Refunding	2,245,000	6,893,390	9,138,390
2019 Series A/2012 Series A Refunding	1,320,000	6,100,998	7,420,998
2020 Series A	–	7,290,271	7,290,271
2020 Series B	–	3,064,617	3,064,617
2020 Series E/2012 Series A Refunding	465,000	2,141,606	2,606,606
2020 Series E/2017 Series A Refunding	1,065,000	3,111,728	4,176,728
2020 Series F/2017 Series B Refunding	1,430,000	3,593,132	5,023,132
2023 Series C/2015A/2006 Series A Refunding	–	2,145,695	2,145,695
2023 Series C/2016A/2009 Series A Refunding	–	1,516,900	1,516,900
2023 Series C/2016A/2009 Series B Refunding	–	1,510,558	1,510,558
2023 Series C/2017D/2011 Series A Refunding	–	1,118,785	1,118,785
2023 Series C/2017D/2012 Series A Refunding	–	1,846,157	1,846,157
2023 Series C/2019A/2011 Series A Refunding	–	3,068,593	3,068,593
2023 Series C/2019A/2012 Series A Refunding	–	2,139,353	2,139,353
2023 Series C/2020E/2012 Series A Refunding	–	3,466,419	3,466,419
2023 Series C/2020E/2017 Series A Refunding	–	71,759	71,759
Subtotal Water Enterprise Bonds	\$ 111,065,000	\$ 154,272,383	\$ 265,337,383
Hetch Hetchy Water Bonds			
2017 Series C	1,425,000	681,860	2,106,860
2017 Series F/2011 Series B Refunding	735,000	381,091	1,116,091
2019 Series B/2011 Series B Refunding	70,000	555,618	625,618
2020 Series D	–	1,475,094	1,475,094
2020 Series H/2017 Series C Refunding	685,000	1,710,409	2,395,409
2023 Series B	–	–	–
Subtotal Hetch Hetchy Water Bonds	\$ 2,915,000	\$ 4,804,072	\$ 7,719,072
Total Debt Service Expenditures	\$ 113,980,000	\$ 159,076,455	\$ 273,056,455

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The following tables show the allocation of each bond series to retail and regional projects, as well as the fiscal year during which each bond reached substantially expended status. No bonds reached substantially expended status during the year ended June 30, 2024. The Section 7.06 Agreement regarding FY 2020-21 described in Note 2a revised the allocation of bond 2016 Series C to 98.99% Regional Water.

Table 4.3. Wholesale Customers Debt Service Allocation (%)

	Excluded Costs	Retail Projects	Regional Projects	Total	Substantially Expended Fiscal Year
Water Enterprise Bonds					
2010 Series B	0.02%	7.13%	92.85%	100.00%	FY 11-12, adj. FY 15-16 7.06
2010 Series E	—	3.14	96.86	100.00	FY 15-16, adj. FY 21-22
2010 Series G	—	—	100.00	100.00	FY 14-15
2011 Series A	—	6.47	93.53	100.00	FY 14-15
2015 Series A/2006 Series A Refunding	33.71	13.10	53.19	100.00	FY 07-08, adj. FY 09-10 7.06
2015 Series A/2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10, adj. FY 09-10 7.06
2016 Series A/2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10, adj. FY 09-10 7.06
2016 Series A/2009 Series B Refunding	0.85	10.31	88.84	100.00	FY 10-11, adj. FY 21-22
2016 Series A/2010 Series F Refunding	—	—	100.00	100.00	FY 14-15
2016 Series C	—	1.01	98.99	100.00	FY 20-21, adj. FY 20-21 7.06
2017 Series A	—	0.54	99.46	100.00	FY 18-19
2017 Series B*	—	70.40	29.60	100.00	
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 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
2020 Series A	—	7.45	92.55	100.00	FY 22-23
2020 Series B*	—	—	100.00	100.00	
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	
2023 Series A*	—	56.48	43.52	100.00	
2023 Series C/2015A/2006 Series A Refunding	33.71	13.10	53.19	100.00	FY 07-08, adj. FY 09-10 7.06
2023 Series C/2016A/2009 Series A Refunding	31.65	10.43	57.92	100.00	FY 09-10, adj. FY 09-10 7.06
2023 Series C/2016A/2009 Series B Refunding	0.85	10.31	88.84	100.00	FY 10-11, adj. FY 21-22
2023 Series C/2017D/2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15
2023 Series C/2017D/2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19
2023 Series C/2019A/2011 Series A Refunding	—	6.47	93.53	100.00	FY 14-15
2023 Series C/2019A/2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19
2023 Series C/2020E/2012 Series A Refunding	—	8.83	91.17	100.00	FY 18-19
2023 Series C/2020E/2017 Series A Refunding	—	0.54	99.46	100.00	FY 18-19
Hetch Hetchy Water Bonds					
2011 Series B	—	0.53	99.47	100.00	FY 18-19
2017 Series C	—	—	100.00	100.00	FY 18-19
2017 Series F/2011 Series B Refunding	—	0.53	99.47	100.00	FY 18-19
2019 Series B/2011 Series B Refunding	—	0.53	99.47	100.00	FY 18-19
2020 Series D	—	—	100.00	100.00	FY 21-22
2020 Series H/2017 Series C Refunding	—	—	100.00	100.00	FY 18-19
2023 Series B*	—	22.84	77.16	100.00	

* Expected allocation to be trued up when bond reaches Substantially Expended status (note 4b)

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The table below shows the allocation of the net debt service in Table 4.2 using the percentages from Table 4.3. 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, which was 67.35%. 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, 2024 was allocated using the Adjusted Proportional Annual Use percentage of 67.15%.

In total, \$155,656,484 in net debt service is allocated to the Wholesale Customers.

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Table 4.4. Wholesale Customers Debt Service Allocation (\$)

	Excluded Costs	Retail Projects	Regional Projects	Total	Proportional Annual Use	Total Wholesale Debt Service
Water Enterprise Bonds						
2010 Series B	\$ 5,227	\$ 1,863,553	\$ 24,268,001	\$ 26,136,781	67.35%	\$ 16,344,499
2010 Series E	—	782,320	24,132,336	24,914,656	67.35	16,253,128
2010 Series G	—	—	16,079,777	16,079,777	67.35	10,829,730
2015 Series A/ 2006 Series A Refunding	9,689,919	3,765,587	15,289,433	28,744,939	67.35	10,297,433
2015 Series A/ 2009 Series A Refunding	4,047,759	1,333,906	7,407,464	12,789,129	67.35	4,988,927
2016 Series A/ 2009 Series A Refunding	3,322,665	1,094,958	6,080,530	10,498,153	67.35	4,095,237
2016 Series A/ 2009 Series B Refunding	191,418	2,321,785	20,006,536	22,519,739	67.35	13,474,402
2016 Series A/ 2010 Series F Refunding	—	—	17,410,315	17,410,315	67.35	11,725,847
2016 Series C	—	147,042	14,411,555	14,558,597	67.35	9,706,182
2017 Series A	—	19,521	3,595,555	3,615,076	67.35	2,421,606
2017 Series B	—	3,108,248	1,306,877	4,415,125	67.35	880,182
2017 Series D/ 2011 Series A Refunding	—	688,396	9,951,420	10,639,816	67.35	6,702,281
2017 Series D/ 2012 Series A Refunding	—	301,288	3,110,812	3,412,100	67.35	2,095,132
2017 Series G/ 2011 Series A Refunding	—	905,685	13,092,534	13,998,219	67.35	8,817,822
2019 Series A/ 2011 Series A Refunding	—	591,254	8,547,136	9,138,390	67.35	5,756,496
2019 Series A/ 2012 Series A Refunding	—	655,274	6,765,724	7,420,998	67.35	4,556,715
2020 Series A	—	543,125	6,747,146	7,290,271	67.35	4,544,203
2020 Series B	—	—	3,064,617	3,064,617	67.35	2,064,020
2020 Series E/ 2012 Series A Refunding	—	230,163	2,376,443	2,606,606	67.35	1,600,534
2020 Series E/ 2017 Series A Refunding	—	22,554	4,154,174	4,176,728	67.35	2,797,836
2020 Series F/ 2017 Series B Refunding	—	3,536,285	1,486,847	5,023,132	67.35	1,001,391
2023 Series C/2015A/ 2006 Series A Refunding	723,314	281,086	1,141,295	2,145,695	67.35	768,662
2023 Series C/2016A/ 2009 Series A Refunding	480,099	158,213	878,588	1,516,900	67.35	591,729
2023 Series C/2016A/ 2009 Series B Refunding	12,840	155,738	1,341,980	1,510,558	67.35	903,824
2023 Series C/2017D/ 2011 Series A Refunding	—	72,385	1,046,400	1,118,785	67.35	704,750
2023 Series C/2017D/ 2012 Series A Refunding	—	163,016	1,683,141	1,846,157	67.35	1,133,595
2023 Series C/2019A/ 2011 Series A Refunding	—	198,538	2,870,055	3,068,593	67.35	1,932,982
2023 Series C/2019A/ 2012 Series A Refunding	—	188,905	1,950,448	2,139,353	67.35	1,313,627
2023 Series C/2020E/ 2012 Series A Refunding	—	306,085	3,160,334	3,466,419	67.35	2,128,485
2023 Series C/2020E/ 2017 Series A Refunding	—	387	71,372	71,759	67.35	48,069
Subtotal Water Enterprise Bonds	\$ 18,473,241	\$ 23,435,297	\$ 223,428,845	\$ 265,337,383		\$ 150,479,326

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Table 4.4 (continued). Wholesale Customers Debt Service Allocation (\$)

	Excluded Costs	Retail Projects	Regional Projects	Total	Proportional Annual Use	Total Wholesale Debt Service
Hetch Hetchy Water Bonds						
2017 Series C	—	—	2,106,860	2,106,860	67.15	1,414,756
2017 Series F/ 2011 Series B Refunding	—	5,915	1,110,176	1,116,091	67.15	745,483
2019 Series B/ 2011 Series B Refunding	—	3,316	622,302	625,618	67.15	417,876
2020 Series D	—	—	1,475,094	1,475,094	67.15	990,526
2020 Series H/ 2017 Series C Refunding	—	—	2,395,409	2,395,409	67.15	1,608,517
2023 Series B	—	—	—	—	67.15	—
Subtotal Hetch Hetchy Water Bonds	\$ —	\$ 9,231	\$ 7,709,841	\$ 7,719,072		\$ 5,177,158
Total Debt Service Allocation	\$ 18,473,241	\$ 23,444,528	\$ 231,138,686	\$ 273,056,455		\$ 155,656,484

b) Closeout of Interest Earnings

Typically, interest earnings on the project fun of bond proceeds are appropriated to be spent on other capital projects. However, this is not a requirement of the WSA. In Fiscal Year 2023-24, the remaining interest earnings on certain bonds which had reached substantially expended status were closed out to the SFPUC's operating funds rather than being appropriated. The wholesale customers are allocated a proportional share of these earnings as a revenue credit, as shown in the table below.

Table 4.5. Closeout of Interest Earnings on Bond Project Funds

Bond Series	Interest Earnings	Regional Share	Allocation %	Credit to Wholesale Customers
2010 Series E	\$ (10,151)	96.86%	67.35%	\$ (6,622)
2010 Series G	(45,807)	100.00	67.35	(30,851)
2011 Series A	(66)	93.53	67.35	(42)
2011 Series B	(344,446)	99.47	67.15	(230,070)
Total Closeout of Interest Earnings on Project Funds				\$ (267,585)

c) 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, 2024.

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Table 4.6. Revenue-Funded Capital Projects – Water Enterprise

Project Description	Appropriations	Allocation %	Wholesale Share
Buildings & Grounds	\$ 3,513,277	67.35%	\$ 2,366,192
Communications & Monitoring	1,998,767	67.35	1,346,170
Water Supply & Storage	4,764,596	67.35	3,208,955
Water Transmission	(250,000)	67.35	(168,375)
Water Treatment	2,164,877	67.35	1,458,045
Watershed & Land Management	12,558,483	67.35	8,458,138
Palo Alto Pipeline Replacement	250,000	100.00	250,000
525 Golden Gate - Water Enterprise Share	684,495	67.35	461,008
525 Golden Gate - Direct Wholesale Share	1,737	100.00	1,737
Total Revenue-Funded Capital Appropriation	\$ 25,686,232		\$ 17,381,870

d) 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, 2024.

Table 4.6. Revenue-Funded Capital Projects – Hetch Hetchy

Project Description	Appropriations	Allocation %	Wholesale Share
525 Golden Gate - Hetchy Water Share	\$ 41,460	67.15%	\$ 27,841

e) 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, 2024, the Wholesale Revenue-Funded Capital Fund balance is \$24,465,541 less than the target amount based on cumulative annual appropriations and expenditures. With the cap in annual transfers from the Balancing Account applied, the Wholesale Customers must deposit an additional \$4,000,000 in the fund. Activity in the Wholesale Revenue Funded Capital Fund is shown in the tables below.

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Table 4.7. Annual Activity in Wholesale Capital Fund

Beginning Wholesale Capital Fund Balance	\$	42,709,899
Annual Appropriation		17,409,710
Annual Expenditures		(21,269,074)
Interest Earnings		<u>1,390,605</u>
Subtotal Balance Before Transfers	\$	40,241,141
Amount Encumbered as of June 30, 2024		<u>(33,363,837)</u>
Unencumbered Balance Before Transfers	\$	<u>6,877,304</u>

Table 4.8. True-Up of Balance in Wholesale Capital Fund

Lesser of		
Target balance, or	\$	31,342,845
Cumulative unspent Wholesale Capital Fund		<u>34,411,862</u>
Target balance		31,342,845
(Less) Unencumbered balance before transfer		<u>(6,877,304)</u>
Deficiency/(Excess) in Reserve		24,465,541
Lesser of		
\$4,000,000 or	4,000,000	
Calculated reserve deficiency		<u>24,465,541</u>
Wholesale Capital Fund, before adjustments		40,241,141
Transfer From/(To) Balancing Account		<u>4,000,000</u>
Ending Total Balance	\$	<u>44,241,141</u>

5) Wholesale Revenue Billings

During the year ended June 30, 2024, the SFPUC billed a total of \$315,206,839 (net of amounts remitted to BAWSCA) in wholesale revenue for costs of service associated with deliveries from the regional water system.

During the year ended June 30, 2024 the cities of Milpitas and Mountain View did not meet their minimum purchase requirements. Revenues associated with the shortfall in the amount of \$3,961,835 are included as wholesale water revenues (see Note 1e).

A portion of these billings are applied as 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, 2024, the balance in the Wholesale Revenue Coverage Reserve was forecasted to be lower than required at the time of rate-setting, and so \$1,692,800 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 \$317,475,875.

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Gross and net wholesale revenue billings are summarized below:

Table 5.1. Wholesale Revenue Billings

Gross wholesale amounts billed – net of adjustments	\$ 315,206,839
Imputed water sales from minimum purchase requirements	<u>3,961,835</u>
Wholesale Revenues Billed	\$ 319,168,674
Transfer to wholesale revenue coverage reserve	<u>(1,692,800)</u>
Net Wholesale Revenues Billed	<u><u>\$ 317,475,875</u></u>

6) Wholesale Revenue Coverage Reserve

a) Activity in the Wholesale Revenue Coverage Reserve During the Year ended June 30, 2024

During the year ended June 30, 2024, \$1,692,800 was transferred to the Wholesale Revenue Coverage Reserve in accordance with Article VI, Section 6.06 of the WSA. As of June 30, 2024, the Wholesale Revenue Coverage Reserve balance was \$55,685,577, representing total deposits since July 1, 2009.

Table 6.1. Wholesale Revenue Coverage Reserve

Wholesale Revenue Coverage Reserve Balance, June 30, 2023	\$ 53,992,777
Deposits to wholesale revenue coverage reserve	<u>1,692,800</u>
Wholesale Coverage Reserve Balance, June 30, 2024	<u><u>\$ 55,685,577</u></u>

b) Net Interest on Wholesale Coverage Reserve

As of July 1, 2023, 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 \$1,007,139, calculated as the annual interest on the Wholesale Revenue Coverage Reserve less any Working Capital Requirement not met, is credited to the Balancing Account to the Wholesale Customers during the year ended June 30, 2024, in accordance with Article VI, Section 6.06 of the WSA.

Table 6.2. Net Interest on Wholesale Coverage Reserve, Year Ended June 30, 2023

	Debt service coverage requirement	Working capital coverage requirement	Net interest
Calculation of adequacy of reserve requirement:			
Wholesale revenue coverage reserve balance, July 1, 2023	\$ 53,992,777	53,992,777	
Coverage reserve requirement, July 1, 2023	<u>(54,417,472)</u>	<u>(22,382,022)</u>	
Coverage reserve excess/(deficiency)	\$ (424,695)	31,610,755	
Net interest due (to) from Wholesale Customers			<u><u>\$ (1,007,139)</u></u>

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7) 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 awards are 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 affected by the Rim Fire were insured.

Cumulative total expenses through June 30, 2024 related to facilities and infrastructure damage and costs related to emergency response, net of reimbursements to-date from insurance and federal and state awards, total approximately \$7.1 million. The WRRs for the years ended June 30, 2014 through June 30, 2024 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 \$1.7 million may be due from the Wholesale Customers.

8) 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 2023-24.

WSA section 5.11 and definitions, section 5.12, and Attachment R 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 will be reclassified prospectively and retroactively to specified dates in the WSA. 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 8.1. Capital Project Expenses Classification

<u>Asset</u>	<u>Asset Classification</u>	<u>Project Classification</u>
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

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9) Wholesale Customer Review of Fiscal Years 2021-22 and 2022-23 Wholesale Revenue Requirements

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 Customer review of the Fiscal Year 2021-22 and Fiscal Year 2022-23 calculations are ongoing. All prior fiscal years have been resolved via agreements described in prior Statements to the Changes in the Balancing Account, with the exception of the asset classification amendment reallocation described in Note 8).

Potential adjustments for both fiscal years known at this time relate to methodology for allocating commercial paper expenses paid from bond funds between Wholesale and Retail customers, following the process agreed to by the parties in the Fiscal Year 2020-21 7.06 Agreement (Note 2a). The amount of potential impact has not been determined. Any agreed-upon adjustments may be incorporated into the beginning balance of the Balancing Account through the Wholesale Customer review process.