

Public Utilities Commission of the
City and County of San Francisco

Power Enterprise

Annual Disclosure Report

For Fiscal Year Ending
June 30, 2024



Services of the San Francisco Public Utilities Commission

March 27, 2025

VIA: MSRB EMMA

To Whom it May Concern:

Attached hereto is the Fiscal Year 2023-24 Annual Disclosure Report for the Public Utilities Commission of the City and County of San Francisco ("SFPUC"), Power Enterprise. This filing relates to the following associated base CUSIP number(s):

SFPUC Power Enterprise: 79771K

This Annual Disclosure Report is being provided by the SFPUC in connection with our undertaking entered into in accordance with Rule 15c2-12, promulgated by the U.S. Securities and Exchange Commission. The information provided in this Annual Disclosure Report speaks only as of its date, March 27, 2025. The delivery of this Annual Disclosure Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement. Other than as set forth in the Continuing Disclosure Agreement, SFPUC has not agreed to notify the secondary market of subsequent changes to the information in this Annual Disclosure Report ("Report").

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

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

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

Sincerely,

/s/ Dennis J. Herrera

Dennis Herrera
General Manager

Daniel L. Lurie
Mayor

Kate H. Stacy
President

Joshua Arce
Vice President

Avni Jamdar
Commissioner

Steve Leveroni
Commissioner

Dennis J. Herrera
General Manager

Enclosure

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

Page intentionally left blank.

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Kate H. Stacy, President
Joshua Arce, Vice President
Avni Jamdar, Commissioner
Stephen E. Leveroni, Commissioner

SAN FRANCISCO PUBLIC UTILITIES COMMISSION OFFICIALS

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

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Daniel Lurie

BOARD OF SUPERVISORS

Rafael Mandelman, President

Connie Chan
Chyanne Chen
Matt Dorsey
Joel Engardio
Jackie Fielder

Myrna Melgar
Bilal Mahmood
Danny Sauter
Stephen Sherrill
Shamann Walton

CITY ATTORNEY

David Chiu

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Greg Wagner, Controller
Carmen Chu, City Administrator

Current as of March 27, 2025

The San Francisco Public Utilities Commission ("SFPUC") hereby provides this Annual Disclosure Report for the fiscal year ending June 30, 2024 in connection with obligations undertaken pursuant to Continuing Disclosure Certificates for revenue bonds issued by SFPUC's Power Enterprise, as provided in the table below. Audited Financial Statements for the years ending June 30, 2024 and June 30, 2023 are attached and submitted separately and may be viewed on EMMA or downloaded from the SFPUC website at: <https://www.sfpuc.gov/about-us/reports/debt-management-and-disclosure-reports>.

**SFPUC POWER ENTERPRISE
OUTSTANDING PARITY REVENUE BONDS**
(\$000's)[†]

Series of Bonds	Purpose	Issue Date	Final CUSIP (79771K)	Original Par	Par Outstanding (June 30, 2023 2024)
Power Revenue Bonds, 2015 Series A (Green Bonds)	Finance rehabilitation of hydropower generation facilities	May 20, 2015	AN6	32,025	\$ 32,025
Power Revenue Bonds, 2015 Series B	Finance rehabilitation of transmission & distribution lines	May 20, 2015	AY2	7,530	2,005
Power Revenue Bonds, 2021 Series A (Green Bonds)	Finance rehabilitation of hydropower generation facilities	December 21, 2021	CC8	74,280	74,280
Power Revenue Bonds, 2021 Series B	Finance rehabilitation of transmission & distribution lines	December 21, 2021	DG8	49,720	49,720
Power Revenue Bonds, 2023 Series A	Finance rehabilitation of transmission & distribution lines	October 12, 2023	EC6	123,905	123,905
TOTAL⁽²⁾				\$287,460	\$281,935

For the convenience of bondholders, the following table provides information related to the Power Enterprise's outstanding indebtedness that is subordinate in lien to the 2015 Series AB, 2021 Series AB and 2023 Series A Power Revenue Bonds.

**SFPUC POWER ENTERPRISE
OUTSTANDING SUBORDINATE OBLIGATIONS**
(\$000's)[†]

Series of Bonds	Purpose	Issue Date	Final CUSIP (79771K)	Original Par	Par Outstanding (June 30, 2024)
2011 Qualified Energy Conservation Bonds ("QECBs")	Fund certain clean, renewable energy facilities	December 1, 2011	n/a	8,291	2,021
2015 New Clean Renewable Energy Bonds ("NCREBs")	Finance installation of solar energy equipment on various City-owned facilities	October 1, 2015	n/a	4,100	1,343
TOTAL⁽¹⁾				\$ 12,391	\$ 3,364

⁽¹⁾ Total excludes Commercial Paper. The Power Enterprise maintains a \$250 million commercial paper program, which is subordinate to the outstanding 2015 Series AB, 2021 Series AB and 2023 Series A Bonds. As of June 30, 2024, the SFPUC has \$90.7 million in Power Commercial Paper Notes outstanding. The Commercial Paper Notes are secured by a \$125 million letter of credit from Bank of America, N.A, which expires March 6, 2026 and a \$125 million letter of credit from Bank of America, N.A which expires March 6, 2026. See "Subsequent Events" section for more information regarding the Power Enterprise Commercial Paper Program.

[†] Totals may not add due to independent rounding

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

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

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Retail and Other ⁽¹⁾	2,526	3,858	3,551	4,654	5,439
City Agencies	1,512	1,489	1,522	1,546	1,564
Moccasin/City of Riverbank	37	36	35	36	38
Modesto/Turlock Irrigation Districts	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Accounts	4,077	5,385	5,110	6,238	7,043

⁽¹⁾ Other customers include commercial and residential retail and quasi-municipal customers such as Moscone tenants, Exploratorium, and Yerba Buena Gardens and SFUSD. Decrease in accounts from Fiscal Year 2020-21 to 2021-22 due primarily to corrections to the customer type made during a transition to the Power Enterprise's new billing system. Decrease in accounts from Fiscal Year 2021-22 to 2022-24 due primarily to new accounts from affordable housing units.

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2024

**AVERAGE ELECTRIC SERVICE RATES⁽¹⁾
FOR FISCAL YEAR 2024-25**

Customer Classes	Retail and Enterprise Municipal⁽²⁾	General Use Municipal⁽³⁾
Residential	\$0.26614/kWh	--
Small Commercial (Demand <75 kW)	\$0.31557/kWh	\$0.18877/kWh
Medium Commercial (Demand 75-500kW)	\$0.25378/kWh	\$0.18877/kWh
Large Commercial (Demand 500-1000 kW)	\$0.25692/kWh	\$0.18877/kWh
Industrial (Demand >1000kW)	\$0.19446/kWh	\$0.18877/kWh

⁽¹⁾ Average rates are calculated by dividing total revenue projections (\$) by total energy usage projections (kWh) for each applicable customer class.

⁽²⁾ Rates applicable to most retail non-municipal Power Enterprise customers (i.e., "Retail"), and certain municipal, governmental, and commercial customers, referred to as "Enterprise" customers.

⁽³⁾ Rates applicable to certain municipal, governmental, and commercial customers, referred to as "General Use" customers.

Source: SFPUC Financial Services

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

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
OPERATING & INVESTMENT REVENUE					
Charges for services ⁽²⁾	\$140,680	\$136,247	\$173,105	\$203,847	\$210,327
Rent & concessions	191	136	137	156	198
Interest & investment income ⁽³⁾	5,746	24	(4,001)	3,741	11,501
Other non-operating revenues ⁽⁴⁾⁽¹⁾	<u>25,006</u>	<u>19,273</u>	<u>15,763</u>	<u>13,605</u>	<u>4,315</u>
Total Revenues	\$171,623	\$155,680	\$185,004	\$221,349	\$226,341
OPERATING & MAINTENANCE EXPENSE					
Salary and Fringe Benefits ⁽⁵⁾	\$40,712	\$40,756	\$34,646	\$39,300	\$48,175
Contractual services ⁽⁶⁾	7,742	8,726	9,604	10,819	13,623
Purchased power & related costs ⁽⁷⁾	48,831	42,693	58,252	78,658	77,950
Materials and supplies ⁽⁸⁾	2,260	1,990	2,270	2,612	2,451
Depreciation and amortization ⁽⁹⁾	15,723	15,627	17,628	17,877	18,460
Services of Other Departments ⁽¹⁰⁾	6,426	6,137	6,253	8,674	6,828
General and Administrative ⁽¹¹⁾	4,370	6,074	4,654	15,642	927
Other ^{(1) (12) (17)}	<u>22,063</u>	<u>23,635</u>	<u>23,040</u>	<u>17,970</u>	<u>7,246</u>
Total Operating Expenses	\$148,127	\$145,638	\$156,347	\$191,552	\$175,660
OPERATING AND INVESTMENT INCOME	<u>\$23,496</u>	<u>\$10,042</u>	<u>\$28,657</u>	<u>\$29,797</u>	<u>\$50,681</u>
COVERAGE CALCULATION					
Operating and Investment Income	\$23,496	\$10,042	\$28,657	\$29,797	\$50,681
-Revenue/Expenses excluded from coverage calculation ⁽¹³⁾	(12,868)	(5,731)	6,707	(2,086)	684
+Adjustment to Investing Activities ⁽¹⁴⁾	101	1,902	3,297	(15)	(4,047)
+Depreciation & Non-Cash Expenses ⁽¹⁵⁾	27,470	23,037	18,351	20,714	16,530
+Changes in Working Capital	<u>3,243</u>	<u>(18,641)</u>	<u>(2,702)</u>	<u>3,785</u>	<u>(13,377)</u>
= "Net Revenues"	\$41,442	\$10,609	\$54,310	\$52,195	\$50,471
+Other Available Funds	<u>39,119</u>	<u>23,569</u>	<u>44,315</u>	<u>110,204</u>	<u>116,170</u>
Funds Available for Debt Service	<u>\$80,561</u>	<u>\$34,178</u>	<u>\$98,625</u>	<u>\$162,399</u>	<u>\$166,641</u>
Revenue Bond Debt Service	\$2,568	\$2,567	\$2,565	\$2,567	\$2,565
DEBT SERVICE COVERAGE^{(1)(16) (17)}					
Including "Other Available Funds"	31.37x	13.31x	38.45x	63.29x	64.97x
Current Basis	13.44x	3.67x	20.71x	20.11x	19.45x

- (1) Operating and Investment Income presented in this table differs from the Change in Net Position presented in the Statement of Revenues, Expenses and Changes in Net Position in the Audited Financial Statements. This table may exclude certain elements of non-operating revenue and expenses included in the Statements of Revenues, Expenses and Changes in Net Position. Revenues and expenses associated with Treasure Island Development, Transbay Cable Proceeds, cap and trade allowances, power system impact mitigation, federal subsidies, and other revenues deemed unavailable to pay debt service have been excluded. LCFS (Low Carbon Fuel Standard) Revenue is excluded in Current Basis coverage but included for Indenture Basis coverage calculation.
- (2) Increase in FY2023-24 due to increased sales to City departments and retail customers and, higher capacity sales to CleanPowerSF, offset by a decrease to wholesale electricity sales mainly from CAISO.
- (3) Increase mainly due to unrealized gain in City Treasury pooled investments attributed to improved market value of investments and higher interest rates.
- (4) In FY2023-24 this amount excludes certain revenues related to Trans Bay Cable proceeds, Cap & Trade Allowance, Power System Impact Mitigation, and Federal Interest Subsidy.
- (5) Increase in Fiscal Year 2023-2024 mainly due to higher pension obligations based on actuarial reports.
- (6) Increase in Fiscal Year 2023-2024 mainly due to increased construction contract expenses.
- (7) Decrease in Fiscal Year 2023-2024 mainly due to lower power distribution and transmission costs.
- (8) Decrease in Fiscal Year 2023-24 mainly due to lower electrical supplies expenses.
- (9) Increase in Fiscal Year 2023-24 mainly due additional facilities and improvements placed in service.
- (10) Decrease in Fiscal Year 2023-24 mainly due to lower legal services charges from of City Attorney.
- (11) Decrease in Fiscal Year 2023-24 mainly due to lower judgement and claims expenses.
- (12) In FY2023-24 this amount excludes certain expenses related to Transbay Cable, Power System Impact Mitigation, Cap and Trade, Treasure Island, LCFS, and other capital project funds.
- (13) Beginning in Fiscal Year 2023-24 "Revenue/Expenses excluded from coverage calculation" does not include revenues and expenses related to Treasure Island Development, Transbay Cable Proceeds, cap and trade allowances, power system impact mitigation, federal subsidies, and other revenues deemed unavailable to pay debt service, and only consists of LCFS Revenue (see footnote (1).) For reference, LCSF Revenue for Fiscal Years 2019-20, 2020-21, 2021-22, 2022-23, and 2023-24 were \$1,181, \$1,184, \$593, and \$684, respectively. LCSF revenue is excluded in Current Basis coverage but included for Indenture Basis coverage calculation.
- (14) Adjustment to Investing Activities to exclude non-cash activities such as interest accrual.
- (15) Indirect Cash Flow includes non-cash amortization of depreciation expenses on capital assets.
- (16) Unaudited. Calculated as ratio between Net Revenues plus "Other Available Funds" over debt service on all senior lien obligations.
- (17) Unaudited. Calculated as ratio between Net Revenues over debt service on all senior lien obligations; excludes "Other Available Funds."

Source: SFPUC Annual Comprehensive Financial Report, June 30, 2024 and SFPUC Financial Services

SUBSEQUENT EVENTS

(in \$000's)

1. **Power Interim Funding Program**

On November 19, 2024, the San Francisco Board of Supervisors approved Ordinance 269-24 authorizing (i) an increase of the aggregate principal amount of the Power Enterprise's Interim Funding Program from an aggregate principal amount of \$250,000 to a not-to-exceed aggregate principal amount of \$450,000 to finance on a short-term interim basis various capital projects benefitting the Power Enterprise. The Effective Date of the approved Ordinance is December 26, 2024.

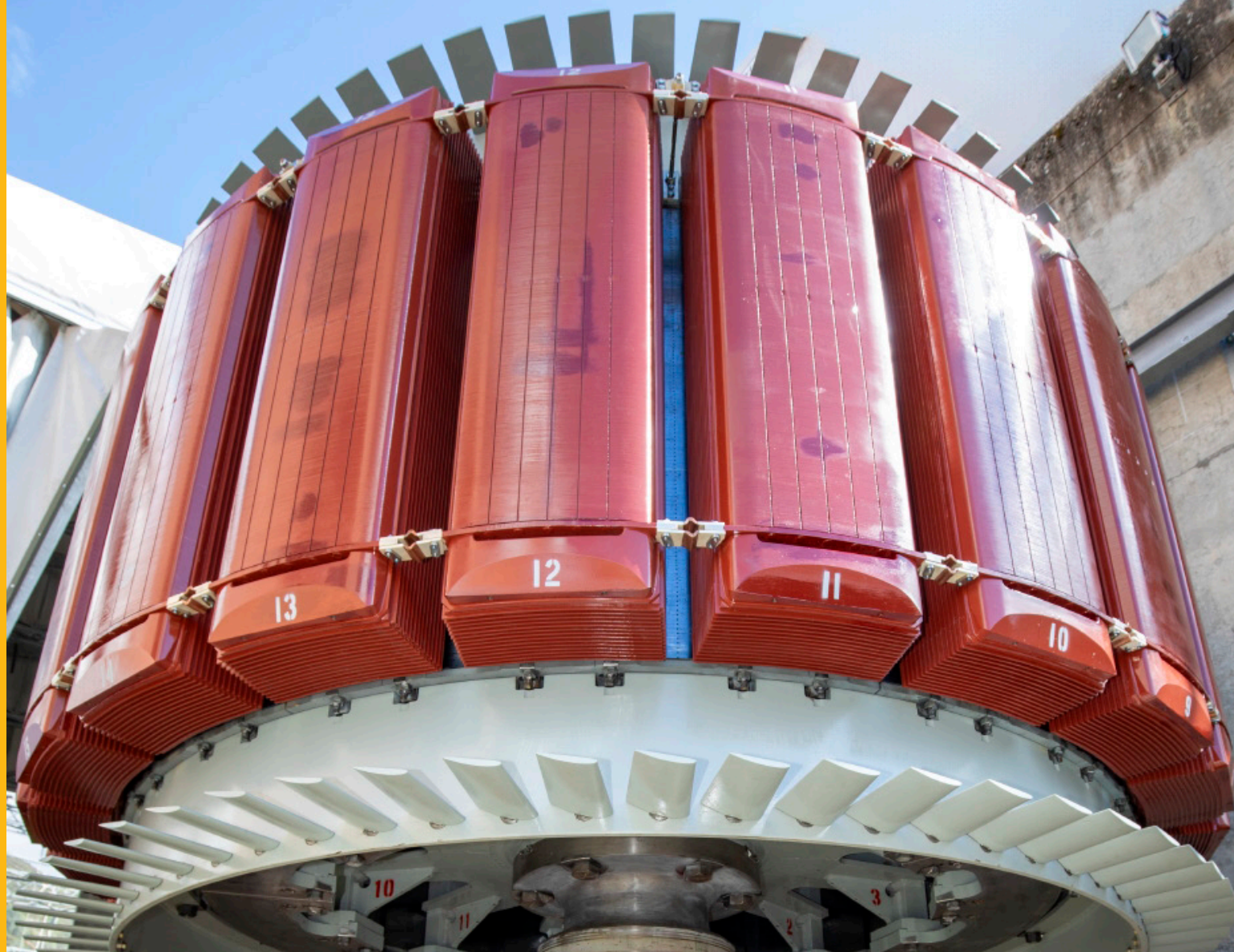
On February 18, 2025, the SFPUC entered into a \$100,000 Reimbursement with Sumitomo Mitsui Banking Corporation (SMBC) (Series A-3), and SMBC established its Irrevocable Transferable Letter of Credit (A-3 Letter of Credit), dated February 18, 2025. The Stated Expiration Date (as defined in the A-3 Letter of Credit) of the A-3 Letter of Credit is February 15, 2030.

On March 4, 2025, the SFPUC entered into a \$100,000 Revolving Credit Agreement with Wells Fargo Bank, National Association (Series R-1) with a commitment expiration date of March 3, 2028.

Generating Clean Energy
for Vital Services.



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



Hetch Hetchy Water and Power and CleanPowerSF

Financial Statements June 30, 2024 and 2023
(With Independent Auditor's Report Thereon)



HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Statements of Net Position	34
Statements of Revenues, Expenses, and Changes in Net Position	36
Statements of Cash Flows	37
Notes to Financial Statements	39
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	102

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco (City), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Hetch Hetchy as of June 30, 2024 and 2023, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Hetch Hetchy and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024 and 2023, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2024 on our consideration of the Hetch Hetchy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hetch Hetchy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hetch Hetchy's internal control over financial reporting and compliance.



Walnut Creek, California
November 12, 2024

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

This section presents management's analysis of San Francisco Hetch Hetchy Water and Power and CleanPowerSF Enterprise's (Hetch Hetchy or the Enterprise) financial condition and activities as of and for fiscal years ended June 30, 2024 and 2023. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

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

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

Organization and Business

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

In normal rain years, 85% of San Francisco's drinking water starts out as snow falling on 459 square miles of watershed land in Yosemite National Park and the City may supplement water supply from an additional 193 square miles of watershed in Yosemite National Park and the Stanislaus National Forest during extremely dry years. As the snow melts, it collects in the SFPUC's storage reservoirs, then flows by gravity through over 150 miles of pipelines and tunnels, it turns the turbines in three hydroelectric powerhouses, generating approximately 1.4 billion kilowatt hours of electricity per year. The electricity travels over 160 miles of transmission and distribution lines from the upcountry powerhouses to the San Francisco Bay Area.

Approximately 55% of the electricity generated by Hetchy Power was used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency (SFMTA), Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport and its tenants, Zuckerberg San Francisco General Hospital and Trauma Center, City streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The remaining 45% of electricity generated was sold to CleanPowerSF and the wholesale electric market.

Hetch Hetchy

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

Hetchy Water

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

Hetchy Power

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

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

Hetch Hetchy Joint

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

CleanPowerSF

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Through CleanPowerSF, SFPUC seeks to achieve several complementary goals, including offering affordable and competitive electricity generation rates, developing and maintaining a diverse electricity resource portfolio that is comprised of renewable and other clean sources of supply, and providing high-quality customer service. The program serves approximately 385,000 customer accounts and provides San Francisco with an electricity supply from its default "Green" product that is sourced from at least 50% California State Renewables Portfolio Standard (RPS)-eligible resources. Additionally, CleanPowerSF offers "SuperGreen", a 100% RPS-eligible electricity supply, that is available to customers for a small additional cost. On June 1, 2022, CleanPowerSF opened enrollment for its "SuperGreen Saver" product, which provides eligible low-income ratepayers residing in neighborhoods that meet the State of California's criteria as Disadvantaged Communities with 100% RPS-eligible electricity at a 20% bill discount.

Overview of the Financial Statements

Hetch Hetchy's financial statements include the following:

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

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

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

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

Financial Analysis

Financial Highlights for Fiscal Year 2024

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by \$1,008,835.
- Net position increased by \$121,170 or 13.3% during the fiscal year.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

- Capital assets, net of accumulated depreciation and amortization, increased by \$127,947 or 14.8% to \$995,251.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$46,961 or 8.0% to \$630,438.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$19,726 or 3.7% to \$556,069.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by \$272,975.
- Net position increased by \$9,129 or 3.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$17,450 or 7.9% to \$237,486.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by \$3,205 or 6.1% to \$49,492.
- Operating expenses, excluding other non-operating expenses, decreased by \$6,061 or 12.1% to \$43,950.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by \$557,336.
- Net position increased by \$51,552 or 9.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$110,514 or 17.1% to \$757,752.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$10,349 or 5.1% to \$214,352.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$9,049 or 4.7% to \$200,601.

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by \$178,524.
- Net position increased by \$60,489 or 51.3% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, decreased by \$17 or 56.7% to \$13.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$39,817 or 12.2% to \$366,594.
- Operating expenses, excluding interest expenses increased by \$16,738 or 5.7% to \$311,518.

Financial Highlights for Fiscal Year 2023

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by \$901,552.
- Net position increased by \$82,798 or 10.0% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$79,656 or 10.1% to \$867,304.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$103,030 or 21.4% to \$583,477.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$65,584 or 13.9% to \$536,343.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by \$269,248.
- Net position increased by \$24,946 or 10.0% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$18,654 or 9.3% to \$220,036.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$3,385 or 6.9% to \$52,697.
- Operating expenses, excluding other non-operating expenses, decreased by \$2,288 or 4.4% to \$50,011.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by \$512,386.
- Net position increased by \$24,171 or 4.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by \$61,273 or 10.5% to \$647,238.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$30,761 or 17.8% to \$204,003.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$35,209 or 22.5% to \$191,552.

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by \$119,918.
- Net position increased by \$33,681 or 39.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, decreased by \$271 or 90.0% to \$30.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by \$68,884 or 26.7% to \$326,777.
- Operating expenses, excluding interest expenses increased by \$32,663 or 12.5% to \$294,780.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Financial Position

The following tables summarize Hetch Hetchy's net position:

**Table 1A - Consolidated Hetch Hetchy
Comparative Condensed Net Position
June 30, 2024, 2023, and 2022**

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Total assets:					
Current and other assets	\$ 636,716	542,742	499,795	93,974	42,947
Capital assets, net of accumulated depreciation and amortization	995,251	867,304	787,648	127,947	79,656
Total assets	<u>1,631,967</u>	<u>1,410,046</u>	<u>1,287,443</u>	<u>221,921</u>	<u>122,603</u>
Deferred outflows of resources:					
Pensions	28,696	20,976	15,731	7,720	5,245
Other postemployment benefits	8,086	8,226	8,069	(140)	157
Total deferred outflows of resources	<u>36,782</u>	<u>29,202</u>	<u>23,800</u>	<u>7,580</u>	<u>5,402</u>
Liabilities:					
Current liabilities:					
Bonds	3,599	1,590	1,966	2,009	(376)
Certificates of participation	463	445	427	18	18
Commercial paper	90,654	—	40,019	90,654	(40,019)
Other liabilities	102,253	104,704	94,902	(2,451)	9,802
Subtotal current liabilities	<u>196,969</u>	<u>106,739</u>	<u>137,314</u>	<u>90,230</u>	<u>(30,575)</u>
Long-term liabilities:					
Bonds	315,200	189,342	192,520	125,858	(3,178)
Certificates of participation	11,685	12,148	12,593	(463)	(445)
Commercial paper	—	116,352	—	(116,352)	116,352
Arbitrage rebate payable	184	—	—	184	—
Other liabilities	99,094	83,913	51,436	15,181	32,477
Subtotal long-term liabilities	<u>426,163</u>	<u>401,755</u>	<u>256,549</u>	<u>24,408</u>	<u>145,206</u>
Total liabilities:					
Bonds	318,799	190,932	194,486	127,867	(3,554)
Certificates of participation	12,148	12,593	13,020	(445)	(427)
Commercial paper	90,654	116,352	40,019	(25,698)	76,333
Arbitrage rebate payable	184	—	—	184	—
Other liabilities	201,347	188,617	146,338	12,730	42,279
Total liabilities	<u>623,132</u>	<u>508,494</u>	<u>393,863</u>	<u>114,638</u>	<u>114,631</u>
Deferred inflows of resources:					
Pensions	5,238	10,500	82,029	(5,262)	(71,529)
Other postemployment benefits	8,730	9,775	7,670	(1,045)	2,105
Total deferred inflows of resources	<u>13,968</u>	<u>20,275</u>	<u>89,699</u>	<u>(6,307)</u>	<u>(69,424)</u>
Net position:					
Net investment in capital assets	576,573	527,185	527,794	49,388	(609)
Restricted for debt service	—	56	140	(56)	(84)
Restricted for capital projects	59,955	32,682	—	27,273	32,682
Restricted for other purposes	—	—	32,749	—	(32,749)
Unrestricted	395,121	350,556	266,998	44,565	83,558
Total net position	<u>\$ 1,031,649</u>	<u>910,479</u>	<u>827,681</u>	<u>121,170</u>	<u>82,798</u>

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Table 1B - Hetchy Water
Comparative Condensed Net Position
June 30, 2024, 2023, and 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2024-2023</u> <u>Change</u>	<u>2023-2022</u> <u>Change</u>
Total assets:					
Current and other assets	\$ 81,605	90,830	109,691	(9,225)	(18,861)
Capital assets, net of accumulated depreciation and amortization	237,486	220,036	201,382	17,450	18,654
Total assets	<u>319,091</u>	<u>310,866</u>	<u>311,073</u>	<u>8,225</u>	<u>(207)</u>
Deferred outflows of resources:					
Pensions	11,929	8,858	6,696	3,071	2,162
Other postemployment benefits	3,191	3,248	3,272	(57)	(24)
Total deferred outflows of resources	<u>15,120</u>	<u>12,106</u>	<u>9,968</u>	<u>3,014</u>	<u>2,138</u>
Liabilities:					
Current liabilities	8,198	9,888	17,553	(1,690)	(7,665)
Long-term liabilities	37,918	31,730	17,095	6,188	14,635
Total liabilities	<u>46,116</u>	<u>41,618</u>	<u>34,648</u>	<u>4,498</u>	<u>6,970</u>
Deferred inflows of resources:					
Pensions	1,941	4,142	34,477	(2,201)	(30,335)
Other postemployment benefits	2,897	3,084	2,734	(187)	350
Total deferred inflows of resources	<u>4,838</u>	<u>7,226</u>	<u>37,211</u>	<u>(2,388)</u>	<u>(29,985)</u>
Net position:					
Net investment in capital assets	233,276	214,014	194,688	19,262	19,326
Restricted for capital projects	31,330	10,980	—	20,350	10,980
Restricted for other purposes	—	—	13,912	—	(13,912)
Unrestricted	18,651	49,134	40,582	(30,483)	8,552
Total net position	<u>\$ 283,257</u>	<u>274,128</u>	<u>249,182</u>	<u>9,129</u>	<u>24,946</u>

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Table 1C - Hetchy Power
Comparative Condensed Net Position
June 30, 2024, 2023, and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Total assets:					
Current and other assets	\$ 330,411	294,006	260,487	36,405	33,519
Capital assets, net of accumulated depreciation and amortization	757,752	647,238	585,965	110,514	61,273
Total assets	1,088,163	941,244	846,452	146,919	94,792
Deferred outflows of resources:					
Pensions	14,580	10,826	8,183	3,754	2,643
Other postemployment benefits	3,899	3,969	3,999	(70)	(30)
Total deferred outflows of resources	18,479	14,795	12,182	3,684	2,613
Liabilities:					
Current liabilities:					
Bonds	3,599	1,590	1,966	2,009	(376)
Certificates of participation	463	445	427	18	18
Commercial paper	90,654	—	40,019	90,654	(40,019)
Other liabilities	55,976	63,355	48,688	(7,379)	14,667
Subtotal current liabilities	150,692	65,390	91,100	85,302	(25,710)
Long-term liabilities:					
Bonds	315,200	189,342	192,520	125,858	(3,178)
Certificates of participation	11,685	12,148	12,593	(463)	(445)
Commercial paper	—	116,352	—	(116,352)	116,352
Arbitrage rebate payable	184	—	—	184	—
Other liabilities	53,066	45,626	22,762	7,440	22,864
Subtotal long-term liabilities	380,135	363,468	227,875	16,667	135,593
Total liabilities:					
Bonds	318,799	190,932	194,486	127,867	(3,554)
Certificates of participation	12,148	12,593	13,020	(445)	(427)
Commercial paper	90,654	116,352	40,019	(25,698)	76,333
Arbitrage rebate payable	184	—	—	184	—
Other liabilities	109,042	108,981	71,450	61	37,531
Total liabilities	530,827	428,858	318,975	101,969	109,883
Deferred inflows of resources:					
Pensions	2,372	5,062	42,138	(2,690)	(37,076)
Other postemployment benefits	3,541	3,769	3,342	(228)	427
Total deferred inflows of resources	5,913	8,831	45,480	(2,918)	(36,649)
Net position:					
Net investment in capital assets	343,297	313,171	333,106	30,126	(19,935)
Restricted for debt service	—	56	140	(56)	(84)
Restricted for capital projects	28,625	21,702	—	6,923	21,702
Restricted for other purposes	—	—	17,004	—	(17,004)
Unrestricted	197,980	183,421	143,929	14,559	39,492
Total net position	\$ 569,902	518,350	494,179	51,552	24,171

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

**Table 1D - CleanPowerSF
Comparative Condensed Net Position
June 30, 2024, 2023, and 2022**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2024-2023 Change</u>	<u>2023-2022 Change</u>
Total assets:					
Current and other assets	\$ 224,700	157,906	129,617	66,794	28,289
Capital assets, net of accumulated depreciation and amortization	13	30	301	(17)	(271)
Total assets	<u>224,713</u>	<u>157,936</u>	<u>129,918</u>	<u>66,777</u>	<u>28,018</u>
Deferred outflows of resources:					
Pensions	2,187	1,292	852	895	440
Other postemployment benefits	996	1,009	798	(13)	211
Total deferred outflows of resources	<u>3,183</u>	<u>2,301</u>	<u>1,650</u>	<u>882</u>	<u>651</u>
Liabilities:					
Current liabilities	38,079	31,461	28,661	6,618	2,800
Long-term liabilities	8,110	6,557	11,579	1,553	(5,022)
Total liabilities	<u>46,189</u>	<u>38,018</u>	<u>40,240</u>	<u>8,171</u>	<u>(2,222)</u>
Deferred inflows of resources:					
Pensions	925	1,296	5,414	(371)	(4,118)
Other postemployment benefits	2,292	2,922	1,594	(630)	1,328
Total deferred inflows of resources	<u>3,217</u>	<u>4,218</u>	<u>7,008</u>	<u>(1,001)</u>	<u>(2,790)</u>
Net position:					
Restricted for other purposes	—	—	1,833	—	(1,833)
Unrestricted	178,490	118,001	82,487	60,489	35,514
Total net position	<u>\$ 178,490</u>	<u>118,001</u>	<u>84,320</u>	<u>60,489</u>	<u>33,681</u>

Net Position, Fiscal Year 2024

Hetch Hetchy

Hetch Hetchy's net position of \$1,031,649 increased by \$121,170 or 13.3% from prior year. Increases in total assets and deferred outflows of resources of \$229,501 and increases of \$108,331 in total liabilities and deferred inflows of resources are described below (see Table 1A). Current and other assets were \$636,716, a \$93,974 or 17.3% increase from prior year, mainly due to increased cash collections from charges for services for Hetchy Power and CleanPowerSF.

Capital assets, net of accumulated depreciation and amortization, increased by \$127,947 or 14.8% to \$995,251 primarily from construction and capital improvement activities for the Cluster 7 Mitigation and Transmission Line Clearance Mitigation Projects. Deferred outflows of resources increased by \$7,580 due to an increase of \$7,720 in pensions, offset by a decrease of \$140 in other postemployment benefits (OPEB) based on actuarial reports.

Total liabilities increased by \$114,638 or 22.5% to \$623,132. Outstanding debt increased by \$101,724 due to an increase of \$127,867 in bonds mainly from 2023 Series A Revenue Bonds issuance, offset by decreases of \$25,698 in commercial paper and \$445 in Certificates of Participation. Arbitrage rebate payable increased by \$184 related to 2021 Series AB and 2023 Series A Revenue Bonds. Other liabilities increased by \$12,730 primarily due to increase in net pension liability based on actuarial estimates. Deferred inflows of resources decreased by \$6,307 due to decreases of \$5,262 in pensions and \$1,045 in OPEB based on actuarial reports.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Hetchy Water

Hetchy Water's net position of \$283,257 increased by \$9,129 or 3.3% from prior year. Increases in total assets and deferred outflows of resources of \$11,239 and increases of \$2,110 in total liabilities and deferred inflows of resources are described below (see Table 1B). The decrease of \$9,225 in current and other assets was attributed to decreases of \$10,152 in cash and investments with City Treasury mainly from higher cash paid to suppliers and contractors for goods and services, \$59 in due from other governments related to State grant reimbursement for Rim Fire Project, and \$22 in inventory due to more issuances than purchases during the fiscal year. The decreases were offset by increases of \$659 in prepaid charges, advances, and other receivables mainly due to higher prepayments to San Joaquin Tributaries Authority and County of Tuolumne, \$283 in interest receivables attributed to higher interest rates, and \$66 in charges for services receivables due to higher consumption from Lawrence Livermore National Laboratory.

Capital assets, net of accumulated depreciation and amortization, increased by \$17,450 or 7.9% to \$237,486 primarily from construction and capital improvement activities for the 2023 March Winter Storm and Mountain Tunnel Improvements Projects. Deferred outflows of resources increased by \$3,014 due to an increase of \$3,071 in pensions, offset by a decrease of \$57 in OPEB based on actuarial reports.

Hetchy Water's total liabilities increased by \$4,498 or 10.8% to \$46,116, as explained by increases of \$4,985 in net pension liability based on actuarial estimates, \$1,362 in OPEB obligations based on actuarial estimates, \$468 in employee related benefits due to 4.75% increase in cost-of-living adjustment (COLA). These increases were offset by decreases of \$1,720 in restricted payables due to lower project spending mainly for Mountain Tunnel Improvement Project, \$432 in general liability based on actuarial estimates, \$80 in subscription liability, \$64 in unrestricted payables mainly due to decrease in management consulting services, \$16 in lease liability, \$4 in unearned revenues, refunds, and other mainly due to decrease in prepaid rent received from tenants, and \$1 in interest payable related to SBITAs.

Deferred inflows of resources decreased by \$2,388 due to decreases of \$2,201 in pensions and \$187 in OPEB based on actuarial reports.

Hetchy Power

Hetchy Power's net position of \$569,902 increased by \$51,552 or 9.9% from prior year. Increases in total assets and deferred outflows of resources of \$150,603 and increases of \$99,051 in total liabilities and deferred inflows of resources are described below (see Table 1C). Increase of \$36,405 in current and other assets was attributed to increases of \$28,989 in cash and investments mainly due to higher collections from billings attributable to 14.0% average rate increase and cash proceeds from commercial paper, \$6,065 in prepaid charges, advances, and other receivables mainly due to prepayments to vendors such as County of Tuolumne for municipal services and additional collateral paid to satisfy the CAISO's financial security requirements, \$4,079 in charges for services receivables mainly due to pending collections from wholesale customers, \$1,320 in interest receivables attributed to higher interest rates, and \$71 in inventory due to more purchases than issuances during the fiscal year.

These increases were offset by decreases of \$3,982 in restricted interest and receivables due to refundable deposit received from PG&E, \$72 in due from other governments related to State grant reimbursement for Rim Fire Project, and \$65 in due from other City departments mainly due to repayments for Moscone Renewable Energy Projects.

Capital assets, net of accumulated depreciation and amortization, increased by \$110,514 or 17.1% to \$757,752 primarily from construction and capital improvement activities for the Cluster 7 Mitigation and

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Transmission Line Clearance Mitigation Projects. Deferred outflows of resources increased by \$3,684 due to an increase of \$3,754 in pensions, offset by a decrease of \$70 in OPEB based on actuarial reports.

Hetchy Power's total liabilities of \$530,827 increased by \$101,969 or 23.8%. As of June 30, 2024, outstanding debt increased by \$101,724 due to \$131,230 from issuance of 2023 Series A Revenue Bonds and \$91,635 from commercial paper issuance, offset by commercial paper repayment of \$117,333, bonds and certificates of participation principal repayments of \$2,035, and \$1,773 in amortization of premium and discount. Other liabilities of \$109,042, such as payables to vendors, employees, contractors, and other government agencies for goods and services under contractual agreements, increased by \$61 or 0.1%, mainly due to increases of \$6,093 in net pension liability based on actuarial estimates, \$5,748 in restricted payables to vendors and contractors due to higher year-end expense accruals mainly for the Warnerville Substation Project, \$1,663 in OPEB obligations based on actuarial estimates, \$1,094 in interest payable mainly due to 2023 Series A Revenue Bonds issuance, \$724 in unearned revenues, refunds, and other mainly due to utility user taxes payable to Alameda county, and \$610 in employee related benefits due to 4.75% increase in COLA. These increases were offset by decreases of \$11,465 in unrestricted payables mainly due to lower year-end expense accruals for power purchases from APX, Inc. and distribution services from PG&E, \$2,376 in general liability based on actuarial estimates, \$1,946 in due to other City departments related to claim settlement reimbursement paid to SFMTA, \$65 in subscription liability, and \$19 in lease liability. Arbitrage rebate payable increased by \$184 related to 2021 Series AB and 2023 Series A Revenue Bonds.

Deferred inflows of resources decreased by \$2,918 due to decreases of \$2,690 in pensions and \$228 in OPEB based on actuarial reports.

CleanPowerSF

CleanPowerSF's net position of \$178,490 increased by \$60,489 or 51.3% from prior year. Increases in total assets and deferred outflows of resources of \$67,659 and increases of \$7,170 in total liabilities and deferred inflows of resources are described below (see Table 1D). Increase in current and other assets of \$66,794 was due to increases of \$61,154 in cash and investments with City Treasury mainly attributed to higher collections from billings, \$9,368 in charges for services receivables mainly due to 15.0% average rate increase, and \$1,133 in interest receivable attributed to higher interest rates. These increases were offset by a decrease of \$4,861 in prepaid charges and other receivables mainly related to \$5,000 cash collateral returned from APX, Inc.

Capital assets, net of accumulated depreciation and amortization, decreased by \$17 or 56.7% to \$13 due to decrease in subscription assets. Deferred outflows of resources increased by \$882 due to an increase of \$895 in pensions, offset by a decrease of \$13 in OPEB based on actuarial reports.

Total liabilities increased by \$8,171 or 21.5% to \$46,189, mainly explained by increases of \$4,674 in payables due to higher power purchases, \$1,840 in unearned revenues, refunds, and other, \$1,439 in net pension liability based on actuarial estimates, \$136 in OPEB obligations based on actuarial assumptions, and \$113 in employee related benefits due to COLA increase. These increases were offset by decreases of \$18 in subscription liability and \$13 in general liability based on actuarial estimates. Increase of \$1,840 in unearned revenues, refunds, and other was mainly due to increases of \$1,241 for the Community Food Service Energy Efficiency Program and Disadvantaged Communities Programs from California Public Utilities Commission (CPUC), \$651 in net energy metering credits to customers who generated excess energy, and \$8 in energy tax payable, offset by a decrease of \$60 in customer prepayments.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Deferred inflows of resources decreased by \$1,001 due to decreases of \$630 in OPEB and \$371 in pensions based on actuarial reports.

Net Position, Fiscal Year 2023

Hetch Hetchy

Hetch Hetchy's net position of \$910,479 increased by \$82,798 or 10.0% from prior year resulting from an increase of \$128,005 in total assets and deferred outflows of resources, offset by a net increase of \$45,207 in total liabilities and deferred inflows of resources (see Table 1A). Current and other assets were \$542,742, a \$42,947 or 8.6% increase from prior year, mainly due to increased cash collections from charges for services for Hetchy Power and CleanPowerSF. Hetch Hetchy adopted GASB Statement No. 96, SBITAs and recognized subscription assets net of accumulated amortization of \$281 and liabilities of \$286 as of June 30, 2023. See Note 10 for additional information about SBITAs.

Capital assets, net of accumulated depreciation and amortization, increased by \$79,656 or 10.1% to \$867,304 primarily from construction and capital improvement activities for the Moccasin Powerhouse Rewind Project and the Mountain Tunnel Improvement Project. Deferred outflows of resources increased by \$5,402 due to increases of \$5,245 in pensions and \$157 in other postemployment benefits (OPEB) based on actuarial reports.

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

Hetchy Water

Hetchy Water's net position of \$274,128 increased by \$24,946 or 10.0% resulting from a net decrease of \$23,015 in total liabilities and deferred inflows of resources and a net increase of \$1,931 in total assets and deferred outflows of resources (see Table 1B). The decrease of \$18,861 in current and other assets was attributed to decreases of \$13,912 in restricted net pension assets based on actuarial report, \$6,238 in cash and investments with City Treasury mainly from higher cash paid to suppliers and contractors for goods and services, \$129 in prepaid charges, advances, and other receivables due to prepayments made in prior year to California Department of Water Resources for dam fees included in fiscal year 2023, and \$70 in charges for services receivables due to lower consumption from Lawrence Livermore National Laboratory. These decreases were offset by increases of \$1,211 in State grants receivable for the 2018 Moccasin Storm Project related to emergency repairs, \$255 in interest receivables attributed to improved fair value of investments and higher interest rates, and \$22 in inventory due to more purchases than issuances during the fiscal year.

Capital assets, net of accumulated depreciation and amortization, increased by \$18,654 or 9.3% to \$220,036 primarily from construction and capital improvement activities for the Mountain Tunnel Improvement Project and San Joaquin Pipeline Valve and Safe Entry Improvement Project. Deferred outflows of resources increased by \$2,138 due to an increase of \$2,162 in pensions offset by a decrease of \$24 in OPEB based on actuarial reports.

Hetchy Water's total liabilities increased by \$6,970 or 20.1% to \$41,618, as explained by increases of \$14,105 in net pension liability based on actuarial estimates, \$667 in OPEB obligations based on actuarial

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

assumptions, \$242 in employee related benefits due to 5.25% increase in cost-of-living adjustment (COLA), \$76 in lease liability and \$73 in general liability based on actuarial estimates. These increases were offset by decreases of \$7,421 in unrestricted payables mainly due to lower license and permit fees to the National Park Service, \$577 in restricted payables due to lower project spending, \$170 in subscription liability per implementation of GASB Statement No. 96, SBITAs, \$24 in unearned revenues, refunds, and other mainly due to recognition of grant advance as revenue for the Rim Fire Project, and \$1 in interest payable related to SBITAs (see Note 10).

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

Hetchy Power

Hetchy Power's net position of \$518,350 increased by \$24,171 or 4.9% resulting from an increase of \$97,405 in total assets and deferred outflows of resources, offset by a net increase of \$73,234 in total liabilities and deferred inflows of resources (see Table 1C). Increase of \$33,519 in current and other assets was attributed to increases of \$47,496 in cash and investments mainly due to higher collections from billings, \$2,088 in charges for services receivables mainly due to pending collections from non-work order City departments, \$1,302 in interest receivables attributed to improved fair value of investments and higher interest rates, and \$348 increase in State grants receivable mainly for the 2018 Moccasin Storm Project related to emergency repairs.

These increases were offset by decreases of \$17,004 in restricted net pension assets based on actuarial report, \$318 in due from other City departments mainly due to repayments from Moscone Renewable Energy Projects, \$182 in prepaid charges, advances, and other receivables mainly due to prepayments made in prior year to California Department of Water Resources for dam fees included in fiscal year 2023, \$152 in restricted interest and other receivables mainly due to lower IRS bond interest subsidy accrual, and \$59 in inventory due to more issuances than purchases during the fiscal year.

Capital assets, net of accumulated depreciation and amortization, increased by \$61,273 or 10.5% to \$647,238 primarily from construction and capital improvement activities for the Moccasin Powerhouse Rewind Project and the Bay Corridor Project. Deferred outflows of resources increased by \$2,613 due to an increase of \$2,643 in pensions offset by a decrease of \$30 in OPEB based on actuarial reports.

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

in refund for Hunter's Point construction project, and \$43 in grant advance due to recognition of Rim Fire State grant revenue, offset by increases of \$170 in prepayments from Distributed Antenna System (DAS) program, and \$168 in customer prepayments.

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

CleanPowerSF

CleanPowerSF's net position of \$118,001 increased by \$33,681 or 39.9%, resulting from an increase of \$28,669 in total assets and deferred outflows of resources and a decrease of \$5,012 in total liabilities and deferred inflows of resources (see Table 1D). Increase in current and other assets of \$28,289 was due to increases of \$42,423 in cash and investments with City Treasury mainly attributed to higher collections from billings and \$498 in interest receivable attributed to improved fair value of investments and higher interest rates. These increases were offset by decrease of \$7,078 in charges for services receivables due to \$5,485 lower unbilled accrual and \$1,593 increase in allowance for uncollectible due to higher aged receivables greater than 120 days. Prepaid charges and other receivables decreased by \$5,721, of which \$5,463 in lower prepaid for power purchases and \$4,258 in prepayments required by PG&E in prior year offset by \$4,000 in collateral paid to the California Independent System Operator's (CAISO) to satisfy financial security requirements. Restricted net pension assets decreased by \$1,833 based on actuarial report.

Capital assets, net of accumulated depreciation and amortization, decreased by \$271 or 90.0% to \$30 due to \$230 in lease right-to-use assets net of accumulated amortization from lease termination of 544 Golden Gate and \$41 in subscription assets net of accumulated amortization per implementation of GASB Statement No. 96, SBITAs. Deferred outflows of resources increased by \$651 due to increases of \$440 in pensions and \$211 in OPEB based on actuarial reports.

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Results of Operations

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

**Table 2A - Consolidated Hetch Hetchy
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024, 2023 and 2022**

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenues:					
Charges for services	\$ 630,078	583,194	480,198	46,884	102,996
Rents and concessions	360	283	249	77	34
Interest and investment income (loss)	22,903	4,603	(8,219)	18,300	12,822
Other non-operating revenues	9,252	16,964	19,001	(7,712)	(2,037)
Total revenues	<u>662,593</u>	<u>605,044</u>	<u>491,229</u>	<u>57,549</u>	<u>113,815</u>
Expenses:					
Operating expenses	556,069	536,343	470,759	19,726	65,584
Interest expenses	14,475	9,491	5,636	4,984	3,855
Amortization of premium, discount, and issuance costs	(1,008)	(1,584)	192	576	(1,776)
Non-operating expenses	1,021	499	628	522	(129)
Total expenses	<u>570,557</u>	<u>544,749</u>	<u>477,215</u>	<u>25,808</u>	<u>67,534</u>
Change in net position before transfers and contributions	<u>92,036</u>	<u>60,295</u>	<u>14,014</u>	<u>31,741</u>	<u>46,281</u>
Capital contributions	29,200	2,535	—	26,665	2,535
Transfers from the City and County of San Francisco	42	20,000	30,001	(19,958)	(10,001)
Transfers to the City and County of San Francisco	(108)	(32)	(532)	(76)	500
Capital contributions and net transfers	<u>29,134</u>	<u>22,503</u>	<u>29,469</u>	<u>6,631</u>	<u>(6,966)</u>
Change in net position	<u>121,170</u>	<u>82,798</u>	<u>43,483</u>	<u>38,372</u>	<u>39,315</u>
Net position at beginning of year	<u>910,479</u>	<u>827,681</u>	<u>784,198</u>	<u>82,798</u>	<u>43,483</u>
Net position at end of year	<u>\$ 1,031,649</u>	<u>910,479</u>	<u>827,681</u>	<u>121,170</u>	<u>82,798</u>

**Table 2B - Hetchy Water
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024, 2023 and 2022**

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenues:					
Charges for services	\$ 49,330	52,570	49,200	(3,240)	3,370
Rents and concessions	162	127	112	35	15
Interest and investment income (loss)	3,255	457	(2,932)	2,798	3,389
Other non-operating revenues	338	1,861	479	(1,523)	1,382
Total revenues	<u>53,085</u>	<u>55,015</u>	<u>46,859</u>	<u>(1,930)</u>	<u>8,156</u>
Expenses:					
Operating expenses	43,950	50,011	52,299	(6,061)	(2,288)
Interest expenses	3	4	3	(1)	1
Non-operating expenses	45	54	37	(9)	17
Total expenses	<u>43,998</u>	<u>50,069</u>	<u>52,339</u>	<u>(6,071)</u>	<u>(2,270)</u>
Change in net position before transfers	<u>9,087</u>	<u>4,946</u>	<u>(5,480)</u>	<u>4,141</u>	<u>10,426</u>
Transfers from the City and County of San Francisco	42	20,000	30,001	(19,958)	(10,001)
Change in net position	<u>9,129</u>	<u>24,946</u>	<u>24,521</u>	<u>(15,817)</u>	<u>425</u>
Net position at beginning of year	<u>274,128</u>	<u>249,182</u>	<u>224,661</u>	<u>24,946</u>	<u>24,521</u>
Net position at end of year	<u>\$ 283,257</u>	<u>274,128</u>	<u>249,182</u>	<u>9,129</u>	<u>24,946</u>

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Table 2C - Hetchy Power
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024, 2023 and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenues:					
Charges for services	\$ 214,154	203,847	173,105	10,307	30,742
Rents and concessions	198	156	137	42	19
Interest and investment income (loss)	13,744	3,741	(4,001)	10,003	7,742
Other non-operating revenues	8,528	13,605	15,763	(5,077)	(2,158)
Total revenues	236,624	221,349	185,004	15,275	36,345
Expenses:					
Operating expenses	200,601	191,552	156,343	9,049	35,209
Interest expenses	14,472	9,486	5,627	4,986	3,859
Amortization of premium, discount, and issuance costs	(1,008)	(1,584)	192	576	(1,776)
Non-operating expenses	99	227	591	(128)	(364)
Total expenses	214,164	199,681	162,753	14,483	36,928
Change in net position before transfers and contributions	22,460	21,668	22,251	792	(583)
Capital contributions	29,200	2,535	—	26,665	2,535
Transfers to the City and County of San Francisco	(108)	(32)	(532)	(76)	500
Capital contributions and net transfers	29,092	2,503	(532)	26,589	3,035
Change in net position	51,552	24,171	21,719	27,381	2,452
Net position at beginning of year	518,350	494,179	472,460	24,171	21,719
Net position at end of year	\$ 569,902	518,350	494,179	51,552	24,171

Table 2D - CleanPowerSF
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024, 2023 and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Revenues:					
Charges for services	\$ 366,594	326,777	257,893	39,817	68,884
Interest and investment income (loss)	5,904	405	(1,286)	5,499	1,691
Other non-operating revenues	386	1,498	2,759	(1,112)	(1,261)
Total revenues	372,884	328,680	259,366	44,204	69,314
Expenses:					
Operating expenses	311,518	294,780	262,117	16,738	32,663
Interest expenses	—	1	6	(1)	(5)
Non-operating expenses	877	218	—	659	218
Total expenses	312,395	294,999	262,123	17,396	32,876
Change in net position	60,489	33,681	(2,757)	26,808	36,438
Net position at beginning of year	118,001	84,320	87,077	33,681	(2,757)
Net position at end of year	\$ 178,490	118,001	84,320	60,489	33,681

Result of Operations, Fiscal Year 2024

Hetch Hetchy

Hetch Hetchy's total revenues were \$662,593, an increase of \$57,549 or 9.5% over prior year (see Table 2A). Charges for services increased by \$46,884 or 8.0% from prior year's revenues mainly due to higher billings from CleanPowerSF and Hetchy Power. Total expenses increased by \$25,808 or 4.7% primarily from higher energy purchases for CleanPowerSF due to volatile and increased pricing in the power market. (See Table 2A).

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Hetchy Water

Hetchy Water's total revenues were \$53,085, a decrease of \$1,930 or 3.5% from prior year's revenues (see Table 2B). Decreases included \$3,240 in charges for services and \$1,523 in other non-operating revenues, offset by increases of \$2,798 in interest and investment income and \$35 in rents and concessions.

Charges for services were \$49,330, a decrease of \$3,240 or 6.2% mainly due to decreased water assessment fees from the Water Enterprise to fund upcountry water-related costs. Interest and investment income was \$3,255, an increase of \$2,798 mainly due to unrealized gain in City Treasury pooled investments attributed to improved fair value of investments and higher interest rates. Other non-operating revenues were \$338, a decrease of \$1,523 mainly due to decreases of \$1,388 in State grants revenue for the Moccasin Storm Project and Rim Fire Project related to emergency repairs, \$239 in Federal grants revenue for the Rim Fire Project, and \$2 in net gain from sale of fixed assets, offset by increases of \$100 settlement revenue mainly for San Joaquin Pipeline Project and \$6 miscellaneous revenue. Rents were \$162, an increase of \$35 mainly due to higher collections from recreational rentals and new leases.

Total operating expenses, excluding interest expenses and other non-operating expenses, were \$43,950, a decrease of \$6,061 or 12.1%. Decreases included \$13,074 in other operating expenses mainly due to lower project spending on the Mountain Tunnel Improvement Project, \$807 in general and administrative expenses due to lower judgments and claims expenses, and \$2 in depreciation and amortization mainly related to fewer subscription assets. These decreases were offset by increases of \$6,484 in personnel services due to higher pension expenses and 4.75% increase in COLA, \$1,079 in contractual services from increased engineering services, \$150 in material and supplies from treatment chemicals and hardware expenses, and \$109 in services provided by other departments mainly due to higher risk management services.

Other non-operating expenses were \$45, a decrease of \$9 due to lower payments to community-based organization programs. Interest expenses were \$3, a decrease of \$1 due to lower interest expenses related to leases and subscription assets. A transfer in of \$42 was received from the Water Enterprise to fund various capital projects.

As a result of the above activities, net position for the year ended June 30, 2024 increased by \$9,129 or 3.3% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were \$236,624, an increase of \$15,275 or 6.9% from prior year's revenues (see Table 2C). Increases included \$10,307 from charges for services, \$10,003 from interest and investment income, and \$42 from rents and concessions, offset by a decrease of \$5,077 from other non-operating revenues.

Charges for services were \$214,154, an increase of \$10,307 or 5.1%, mainly due to increases of \$12,819 in revenue from City departments mainly due to average rate increase and lower allowance for uncollectible, \$9,432 in resale of capacity to CleanPowerSF due to excess energy, \$2,867 in sales to retail customers from increased consumption, and \$1,055 from Treasure Island due to average rate increase, offset by a decrease of \$15,866 mainly due to wholesale revenue from lower Congestion Revenue Right (CRR) credits from the California Independent System Operator (CAISO). Interest and investment income was \$13,744, an increase of \$10,003 mainly due to unrealized gain in City Treasury pooled investments attributed to improved fair value of investments and higher interest rates. Rents increased by \$42 or 26.9% to \$198 mainly due to higher collections from recreational rentals and new leases.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Other non-operating revenues were \$8,528, a decrease of \$5,077 or 37.3%, mainly due to decreases of \$4,449 in revenue received in prior year for the Power System Mitigation Project, \$567 in State grants revenue for the Moccasin Storm Project and Rim Fire Project related to emergency repairs, \$344 in Federal grants revenue from the Rim Fire Project and California Arrearages Payment Program (CAPP) ended in prior year, \$244 in settlement received in prior year due to labor litigation, and \$78 in miscellaneous revenue. These decreases were offset by an increase of \$605 in Cap and Trade revenue due to increase of 12,157 allowances sold.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by \$9,049 or 4.7% to \$200,601. Increases included \$14,217 in other operating expenses mainly due to higher project spending for the Winter Storm Projects, \$8,875 in personnel services due to higher pension expenses and 4.75% increase in COLA, \$2,804 in contractual services for construction contracts and engineering services, and \$583 in depreciation and amortization related to additional facilities and improvements placed in service. These increases were offset by decreases of \$14,715 in general and administrative expenses due to lower judgments and claims expenses, \$1,846 in services provided by other departments mainly due to lower legal service charges from City Attorney's Office, \$708 in purchased electricity and transmission, distribution, and other power costs mainly related to transmission and related CAISO costs, and \$161 in materials and supplies for electrical supplies.

Interest expenses increased by \$4,986 or 52.6% due to higher outstanding bonds from issuance of 2023 Series A Revenue Bonds. Amortization of premium and discount decreased by \$576 due to costs of issuance for 2023 Series A Revenue Bonds.

Other non-operating expenses were \$99, a decrease of \$128 or 56.4% mainly due to lower incentive payments for Electric Vehicle Charge Program. Capital contributions of \$29,200 were for assets at Pier 70, Treasure Island, and Yerba Buena Island. Transfer out of \$108 included \$76 to General Fund for Public Power Expansion Project and \$32 to the Office of the City's Administrator for the Surety Bond Program.

As a result of the above activities, net position for the year ended June 30, 2024 increased by \$51,552 or 9.9% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were \$372,884, a \$44,204 or 13.4% increase over prior year (see Table 2D). Charges for services increased by \$39,817 or 12.2% mainly due to increases of \$38,403 in electricity sales to retail and commercial customers from 15.0% average rate increase and \$3,606 in wholesale sales due to excess energy, offset by \$2,192 in lower capacity sales to counter parties. Capacity sales are based on availability. Interest and investment income was \$5,904, an increase of \$5,499 mainly due to unrealized gain in City Treasury pooled investments attributed to improved fair value of investments and higher interest rates. Other non-operating revenue decreased by \$1,112 mainly due to \$1,173 decrease in Federal CAPP grants which ended in prior year, offset by an increase of \$61 in revenue mainly from Disadvantaged Communities (DAC) Programs.

Total operating expenses, excluding interest expenses and non-operating expenses were \$311,518, an increase of \$16,738 or 5.7% from prior year. Purchased electricity and transmission, distribution, and other power costs increased by \$19,517 due to volatile and increased pricing in power market. Other increases included \$490 in services provided by other departments mainly due to higher legal service charges from City Attorney's Office and \$3 in material and supplies mainly for minor data processing equipment. These increases were offset by decreases of \$1,413 in personnel services due to lower OPEB obligations based on

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

actuarial reports, \$739 in other operating expenses mainly due to recognition of grant expense related to CAPP in prior year, \$552 in general and administrative expenses due to lower judgments and claims expenses, \$315 in contractual services mainly due to lease termination at 544 Golden Gate, and \$253 in depreciation and amortization related to fewer leases and subscription assets. Other non-operating expenses increased by \$659 mainly due to rebates for the Electrify My Ride Program. Interest expenses decreased by \$1 related to SBITAs.

As a result of the above activities, net position for the year ended June 30, 2024 increased by \$60,489 or 51.3% compared to prior year.

Result of Operations, Fiscal Year 2023

Hetch Hetchy

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

Hetchy Water

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

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

Total operating expenses, excluding interest expenses and other non-operating expenses, were \$50,011, a decrease of \$2,288 or 4.4%. Other operating expenses decreased by \$7,358 mainly due to lower capital spending on the Mountain Tunnel Improvement Project, offset by increases of \$2,788 in personnel services due to higher personnel and fringe benefit costs and 5.25% increase in COLA, \$1,451 in general and administrative expenses due to higher fees, licenses, and permit expenses, \$281 in contractual services from increased management consulting services, \$263 in services provided by other departments mainly due to higher bureau allocations related to accounting services support from the Controller's Office, \$243 in material and supplies from fuel and minor data processing equipment, and \$44 in depreciation and amortization mainly related to additional facilities and improvements placed in service.

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

Hetchy Power

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

CleanPowerSF

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Capital Assets

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

Table 3A - Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2024, 2023, and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Hetch Hetchy					
Facilities, improvements, machinery, and equipment	\$ 535,858	466,897	440,460	68,961	26,437
Intangible assets	23,664	24,152	24,472	(488)	(320)
Land and rights-of-way	5,181	5,181	5,181	—	—
Right-to-use lease and subscription assets	411	604	1,005	(193)	(401)
Construction work in progress	430,137	370,470	316,530	59,667	53,940
Total	<u>995,251</u>	<u>867,304</u>	<u>787,648</u>	<u>127,947</u>	<u>79,656</u>
Hetchy Water					
Facilities, improvements, machinery, and equipment	138,220	133,905	133,263	4,315	642
Intangible assets	9,960	10,167	10,374	(207)	(207)
Land and rights-of-way	3,232	3,232	3,232	—	—
Right-to-use lease and subscription assets	190	282	375	(92)	(93)
Construction work in progress	85,884	72,450	54,138	13,434	18,312
Total	<u>237,486</u>	<u>220,036</u>	<u>201,382</u>	<u>17,450</u>	<u>18,654</u>
Hetchy Power					
Facilities, improvements, machinery, and equipment	397,638	332,992	307,197	64,646	25,795
Intangible assets	13,704	13,985	14,098	(281)	(113)
Land and rights-of-way	1,949	1,949	1,949	—	—
Right-to-use lease and subscription assets	208	292	329	(84)	(37)
Construction work in progress	344,253	298,020	262,392	46,233	35,628
Total	<u>757,752</u>	<u>647,238</u>	<u>585,965</u>	<u>110,514</u>	<u>61,273</u>
CleanPowerSF					
Right-to-use lease and subscription assets	13	30	301	(17)	(271)
Total	<u>\$ 13</u>	<u>30</u>	<u>301</u>	<u>(17)</u>	<u>(271)</u>

Capital Assets, Fiscal Year 2024

Hetch Hetchy

Hetch Hetchy has capital assets of \$995,251, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2024 (see Table 3A). This amount represents an increase of \$127,947 or 14.8%, resulting from increases of \$68,961 in facilities, improvements, machinery and equipment and \$59,667 in construction work in progress, offset by decreases of \$488 in amortization of intangible assets and \$193 in right-to-use lease and subscription assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment. Hetch Hetchy had capital commitments of \$65,261 as of June 30, 2024.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2024 include the following:

Table 3B - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2024

	Hetchy Water	Hetchy Power	2024 Total
Cluster 7 Mitigation	\$ —	21,505	21,505
2023 March Winter Storm	5,970	7,297	13,267
Moccasin Powerhouse Rewind	—	12,636	12,636
Mountain Tunnel Improvement	3,611	4,413	8,024
Power Asset Acquisition Analysis	—	7,770	7,770
Bay Corridor	—	7,658	7,658
O'Shaughnessy Dam Outlet Works Phase 1	3,282	4,012	7,294
Repair & Replacement Life Extension Program and Powerhouse	3,629	1,542	5,171
Sunnydale HOPE SF	—	4,686	4,686
Intervening Facilities	—	3,312	3,312
Pier 70	—	2,682	2,682
Moccasin Dam Long Term Improvement and Facilities Upgrade	1,698	2,075	3,773
Distribution Services Retail Customers	—	1,899	1,899
SFO Substation	—	1,833	1,833
Other project additions individually below \$1,500	4,839	15,093	19,932
Additions to Construction Work in Progress	<u>\$ 23,029</u>	<u>98,413</u>	<u>121,442</u>
Transmission Line Clearance Mitigation - Lines 7/8	\$ —	32,494	32,494
Contributed Capital - Pier 70 Streetlights and Trench	—	16,896	16,896
2023 Emergency Cherry Lake Road Repair	5,050	6,172	11,222
Contributed Capital - Treasure Island Switchyard, Trench, and Streetlights	—	9,698	9,698
2023 Emergency Hetch Hetchy Road Repair	1,424	1,740	3,164
Intervening Facilities	—	2,323	2,323
Contributed Capital - Yerba Buena Island Trench	—	1,862	1,862
Other project additions individually below \$1,500	4,064	11,556	15,620
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	<u>\$ 10,538</u>	<u>82,741</u>	<u>93,279</u>

Hetchy Water

Hetchy Water has capital assets of \$237,486, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2024 (see Table 3A). This amount represents an increase of \$17,450 or 7.9%, primarily due to increases of \$13,434 in construction work in progress and \$4,315 in facilities, improvements, machinery, and equipment, offset by decreases of \$207 in amortization of intangible assets and \$92 in right-to-use lease and subscription assets.

For the year ended June 30, 2024, Hetchy Water's major additions to construction work in progress totaled \$23,029. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$10,538 (see Table 3B).

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Hetchy Power

Hetchy Power has capital assets of \$757,752, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2024 (see Table 3A). This amount represents an increase of \$110,514 or 17.1%, primarily due to increases of \$64,646 in facilities, improvements, machinery, and equipment and \$46,233 in construction work in progress, offset by decreases of \$281 in amortization of intangible assets and \$84 in right-to-use lease and subscription assets.

For the year ended June 30, 2024, Hetchy Power's major additions to construction work in progress totaled \$98,413. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$82,741 (see Table 3B).

CleanPowerSF

CleanPowerSF has capital assets of \$13, net of accumulated amortization, for right-to-use lease and subscription assets as of June 30, 2024 (see table 3A).

See Note 4 for additional information about capital assets.

Capital Assets, Fiscal Year 2023

Hetch Hetchy

Hetch Hetchy has capital assets of \$867,304, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2023 (see Table 3A). This amount represents an increase of \$79,656 or 10.1%, resulting from increases of \$53,940 in construction work in progress and \$26,437 in facilities, improvements, machinery and equipment, offset by decreases of \$401 in right-to-use lease and subscription assets and \$320 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment. Hetch Hetchy had capital commitments of \$99,568 as of June 30, 2023.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

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

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

Hetchy Water

Hetchy Water has capital assets of \$220,036, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2023 (see Table 3A). This amount represents an increase of \$18,654 or 9.3%, primarily due to increases of \$18,312 in construction work in progress and \$642 in facilities, improvements, machinery, and equipment, offset by decreases of \$207 in amortization of intangible assets and \$93 in right-to-use lease and subscription assets.

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

Hetchy Power

Hetchy Power has capital assets of \$647,238, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2023 (see Table 3A). This amount represents an increase of \$61,273

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

or 10.5%, primarily due to increases of \$35,628 in construction work in progress and \$25,795 in facilities, improvements, machinery, and equipment, offset by decreases of \$113 in amortization of intangible assets and \$37 in right-to-use lease and subscription assets.

For the year ended June 30, 2023, Hetchy Power's major additions to construction work in progress totaled \$75,348. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled \$43,392 (see Table 3C).

CleanPowerSF

CleanPowerSF has capital assets of \$30, net of accumulated amortization, for right-to-use lease and subscription assets as of June 30, 2023 (see table 3A).

See Note 4 for additional information about capital assets.

Debt Administration

Hetch Hetchy

As of June 30, 2024, Hetch Hetchy has outstanding Certificates of Participation, Qualified Energy Conservation Bonds (QECBs), New Clean Renewable Energy Bonds (NCREBs), 2015 Series AB revenue bonds, 2021 Series AB revenue bonds, 2023 Series A revenue bond, and commercial paper. The aforementioned debts are obligations of the Power Enterprise. See Hetchy Power section below for more details.

Hetchy Water

Hetchy Water did not have debt outstanding as of June 30, 2024 and 2023. Debt, including bond issuances, associated with the funding of water-related, upcountry infrastructure capital improvements is issued through the Water Enterprise, and is reflected in the Water Enterprise's financial statements.

Hetchy Power

As of June 30, 2024 and 2023, Hetchy Power had outstanding debt of \$421,601 and \$319,877, respectively, as shown in Table 4. More detailed information about the Hetchy Power's debt activity is presented in Notes 6, 7 and 8 to the financial statements.

CleanPowerSF

CleanPowerSF did not have any debt outstanding as of June 30, 2024 and 2023.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Table 4 - Hetchy Power
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2024, 2023, and 2022

	2024	2023	2022	2024-2023 Change	2023-2022 Change
Clean Renewable Energy Bonds 2008	\$ —	—	415	—	(415)
Certificates of Participation 2009 Series C	—	—	427	—	(427)
Certificates of Participation 2009 Series D (BABs)	12,148	12,593	12,593	(445)	—
Qualified Energy Conservation Bonds 2011	2,021	2,583	3,138	(562)	(555)
New Clean Renewable Energy Bonds 2015	1,343	1,491	1,637	(148)	(146)
2015 Series A Revenue Bonds	34,819	34,985	35,144	(166)	(159)
2015 Series B Revenue Bonds	2,033	2,948	3,849	(915)	(901)
2021 Series A Revenue Bonds	88,375	89,303	90,213	(928)	(910)
2021 Series B Revenue Bonds	59,142	59,622	60,090	(480)	(468)
2023 Series A Revenue Bonds	131,066	—	—	131,066	—
Commercial Paper	90,654	116,352	40,019	(25,698)	76,333
Total	<u>\$ 421,601</u>	<u>319,877</u>	<u>247,525</u>	<u>101,724</u>	<u>72,352</u>

The increase of \$101,724 was due to \$131,230 from issuance of 2023 Series A Revenue Bonds and \$91,635 from commercial paper issuance, offset by commercial paper repayment of \$117,333, bonds and certificates of participation principal repayments of \$2,035, and \$1,773 in amortization of premium and discount.

Credit Ratings and Bond Insurance – The Power Enterprise's Power Revenue Bonds have been rated "AA-" by Fitch Inc and "AA" by S&P Global Ratings (S&P) as of June 30, 2024 and 2023, respectively.

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

Debt Service Coverage – Pursuant to the Amended and Restated Indenture, the Power Enterprise is required to collect sufficient net revenues each fiscal year, together with any Power Enterprise funds (except Bond Reserve Funds), which are available for payment of debt service and are not budgeted to be expended, at least equal to 1.25 times annual debt service for said fiscal year, and for the SFPUC's debt service coverage policy, at least equal to 1.35 times annual debt service for said fiscal year. The Series 2015 AB power revenue bonds represent the first series of senior lien revenue bonds of Hetchy Power. Pursuant to Power's Master Trust Indenture, senior lien debt service coverage excludes debt service on subordinate obligations, such as Hetchy Power's existing NCREBs and QECBs. During fiscal years 2024 and 2023, the Power Enterprise's net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Power Enterprise's Amended and Restated Indenture and the SFPUC's debt service coverage policy (see Note 8).

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

acquisition, construction, installation, equipping, improvement, or rehabilitation of equipment or facilities for renewable energy and energy conservation. Pursuant to Proposition A, approved by the San Francisco voters on June 5, 2018, City Charter Section 8B.124 is amended to authorize the Power Enterprise to enter into indebtedness, including revenue bonds, notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors to reconstruct, replace, expand, repair, improve or construct new power facilities under the jurisdiction of SFPUC or for any other purpose of the Power Enterprise, and in compliance with City Charter Section 8B.124. Proposition A expressly prohibits the SFPUC from issuing bonds to finance the construction of power plants that generate electricity using fossil fuels or nuclear energy. As of June 30, 2024 and 2023, \$287,460 and \$163,555 of Hetchy Power revenue bonds were issued against existing authorization of \$1,029,790 and \$695,933, respectively.

Cost of Debt Capital – The Power Enterprise's outstanding long-term senior lien debt consists of the 2015 Series AB, 2021 Series AB, and 2023 Series A Power Revenue Bond issued in May 2015, December 2021, and October 2023, respectively, which are issued under the Master Indenture and are senior in lien to all the other Enterprise's outstanding debt obligations. Coupon interest rates range from 3.0% to 5.0%. The Power Enterprise has previously issued and incurred debt service on Tax Credit Bonds and certificates of participation, which constitute subordinate obligations. Interest rates on the Tax Credit Bonds, which include QECBs and NCREBs, ranging from 1.2% to 1.5% (net of the federal tax subsidy). Certificates of participation carried interest rates ranging from 2.0% to 6.5%. The Power Enterprise's short-term debt issued under its commercial paper program has interest rates ranging from 2.8% to 3.7% and 1.1% to 3.2% during fiscal years 2024 and 2023, respectively.

Rates and Charges

Hetchy Water

Hetchy Water charges for services relate to the storage and delivery of water. The water-related portion of upcountry expenditures not covered by the small quantity of water sales to upcountry customers or other miscellaneous revenues are paid by an assessment to the Water Enterprise. Assessment fees were \$46,266 and \$49,636 for the years ended June 30, 2024 and 2023, respectively. In fiscal year 2025, the assessment fees will be \$49,241, an increase of \$2,975 or 6.4% as reflected in the fiscal year 2025 adopted budget. The increase is primarily to cover a portion of the Water share of Hetchy Water capital projects with current year revenues rather than revenue bonds.

Hetchy Power

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

All current SFPUC Rates Schedules and Fees are available at <https://www.sfpuc.gov/accounts-services/water-power-sewer-rates/rates>. Rates for meter readings on or after July 1, 2024 were approved by the Commission in May 2024.

Municipal Rates

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Based on the results of the 2022 Power Cost of Service Study, beginning in fiscal year 2023, all municipal customers are being transitioned to standardized tariff schedules set to their cost of service. For General Use customers, this means that a) instead of a single flat rate per kWh, customers are assigned to a rate schedule based on their customer class (small commercial, industrial, etc.), and b) the subsidy is being gradually eliminated until the General Use rate reaches the equivalent retail rate, which is projected to take 3 to 8 years, depending on the customer class. For Enterprise customers, their rates no longer follow PG&E. Instead, they are set to a rate for their standardized customer class, and will be phased to cost of service over two years. Beginning in fiscal year 2024, almost all Enterprise customers are on equivalent rate schedules as retail non-municipal customers.

Retail Rates

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

CleanPowerSF

CleanPowerSF began offering services in May 2016, giving residential and commercial electricity consumers in San Francisco a choice of having their electricity supplied from clean renewable sources, such as solar geothermal, hydroelectric and wind, at competitive rates. CleanPowerSF offers three products: a "Green" default product comprised of at least 50% RPS-eligible renewable energy and two optional products, "SuperGreen" comprised of 100% RPS-eligible renewable energy at a small additional cost and "SuperGreen Saver" also comprised of 100% RPS-eligible renewable energy to qualifying low-income customers at a 20% bill discount.

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

Based on the results of the 2022 Power Cost of Service Study, CleanPowerSF customers have now transitioned to fixed rate schedules for the entire fiscal year. The rates for each customer class are set based on their unique cost of service, which means that the percentage difference from the equivalent PG&E rates may vary based on the rate schedule and throughout the year as PG&E's rate change more frequently. Rates for meter readings on or after July 1, 2022 were approved by the Commission in May 2022; rates for meter readings on or after July 1, 2023 were approved by the Commission in May 2023; rates for meter readings on or after July 1, 2024 were approved by the Commission in May 2024.

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

Request for Information

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2024 and 2023

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2024 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total
Assets								
Current assets:								
Cash and investments with City Treasury	\$ 46,471	215,370	159,811	421,652	76,973	224,234	98,657	399,864
Cash and investments outside City Treasury	—	41	—	41	—	154	—	154
Receivables:								
Charges for services (net of allowance for doubtful accounts from Hetchy Power of \$1,699 and CleanPowerSF of \$9,226 as of June 30, 2024; and Hetchy Power of \$3,923 and CleanPowerSF of \$7,923 as of June 30, 2023)	471	16,356	50,993	67,820	405	12,277	41,625	54,307
Due from other City departments, current portion	—	1,558	—	1,558	—	1,134	—	1,134
Due from other governments	1,664	574	—	2,238	1,723	646	—	2,369
Interest	578	2,823	1,692	5,093	295	1,503	559	2,357
Restricted interest and other receivables	—	169	—	169	—	4,151	—	4,151
Total current receivables	2,713	21,480	52,685	76,878	2,423	19,711	42,184	64,318
Prepaid charges, advances, and other receivables, current portion	754	6,341	441	7,536	92	1,579	5,641	7,312
Inventory	199	1,690	—	1,889	221	1,619	—	1,840
Restricted cash and investments outside City Treasury, current portion	—	6,849	—	6,849	—	5,371	—	5,371
Total current assets	50,137	251,771	212,937	514,845	79,709	252,668	146,482	478,859
Non-current assets:								
Restricted cash and investments with City Treasury	31,330	50,732	—	82,062	10,980	17,606	—	28,586
Restricted cash and investments outside City Treasury, less current portion	—	7,202	—	7,202	—	3,840	—	3,840
Capital assets, not being depreciated and amortized	89,122	347,633	—	436,755	75,688	301,400	—	377,088
Capital assets, net of accumulated depreciation and amortization	148,174	409,911	—	558,085	144,066	345,546	—	489,612
Lease right-to-use assets, net of accumulated amortization	129	157	—	286	145	178	—	323
Subscription right-to-use assets, net of accumulated amortization	61	51	13	125	137	114	30	281
Prepaid charges, advances, and other receivables, less current portion	138	10,843	11,763	22,744	141	9,540	11,424	21,105
Due from other City departments, less current portion	—	9,863	—	9,863	—	10,352	—	10,352
Total non-current assets	268,954	836,392	11,776	1,117,122	231,157	688,576	11,454	931,187
Total assets	319,091	1,088,163	224,713	1,631,967	310,866	941,244	157,936	1,410,046
Deferred outflows of resources:								
Pensions	11,929	14,580	2,187	28,696	8,858	10,826	1,292	20,976
Other postemployment benefits	3,191	3,899	996	8,086	3,248	3,969	1,009	8,226
Total deferred outflows of resources	15,120	18,479	3,183	36,782	12,106	14,795	2,301	29,202

(Continued)

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2024 and 2023

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2024 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total
Liabilities								
Current liabilities:								
Accounts payable	\$ 969	13,505	29,018	43,492	1,033	24,970	24,344	50,347
Accrued payroll	1,428	3,292	639	5,359	1,252	3,041	543	4,836
Accrued vacation and sick leave, current portion	1,272	2,038	413	3,723	1,132	1,867	394	3,393
Accrued workers' compensation, current portion	228	417	—	645	216	401	—	617
Damage claims liability, current portion	121	1,872	17	2,010	300	450	16	766
Due to other City departments, current portion	—	—	—	—	—	1,946	—	1,946
Lease liability, current portion	16	19	—	35	16	19	—	35
Subscription liability, current portion	30	25	6	61	80	65	18	163
Unearned revenues, refunds, and other, current portion	106	6,604	7,986	14,696	110	5,880	6,146	12,136
Bond, loan, lease, and subscription interest payable	1	2,691	—	2,692	2	1,597	—	1,599
Bonds, current portion	—	3,599	—	3,599	—	1,590	—	1,590
Certificates of participation, current portion	—	463	—	463	—	445	—	445
Commercial paper, current portion	—	90,654	—	90,654	—	—	—	—
Current liabilities payable from restricted assets	4,027	25,513	—	29,540	5,747	23,119	—	28,866
Total current liabilities	8,198	150,692	38,079	196,969	9,888	65,390	31,461	106,739
Long-term liabilities:								
Arbitrage rebate payable	—	184	—	184	—	—	—	—
Net other postemployment benefits liability	16,269	19,883	4,189	40,341	14,907	18,220	4,053	37,180
Net pension liability	19,090	23,332	3,563	45,985	14,105	17,239	2,124	33,468
Accrued vacation and sick leave, less current portion	1,208	1,939	347	3,494	1,134	1,849	349	3,332
Accrued workers' compensation, less current portion	1,069	1,919	—	2,988	1,003	1,837	—	2,840
Damage claims liability, less current portion	147	1,902	4	2,053	400	5,700	18	6,118
Bonds, less current portion	—	315,200	—	315,200	—	189,342	—	189,342
Lease liability, less current portion	106	131	—	237	122	150	—	272
Subscription liability, less current portion	29	26	7	62	59	51	13	123
Unearned revenues, refunds, and other, less current portion	—	580	—	580	—	580	—	580
Liabilities payable from restricted assets, less current portion	—	3,354	—	3,354	—	—	—	—
Commercial paper, less current portion	—	—	—	—	—	116,352	—	116,352
Certificates of participation, less current portion	—	11,685	—	11,685	—	12,148	—	12,148
Total long-term liabilities	37,918	380,135	8,110	426,163	31,730	363,468	6,557	401,755
Total liabilities	46,116	530,827	46,189	623,132	41,618	428,858	38,018	508,494
Deferred inflows of resources:								
Pensions	1,941	2,372	925	5,238	4,142	5,062	1,296	10,500
Other postemployment benefits	2,897	3,541	2,292	8,730	3,084	3,769	2,922	9,775
Total deferred inflows of resources	4,838	5,913	3,217	13,968	7,226	8,831	4,218	20,275
Net position:								
Net investment in capital assets	233,276	343,297	—	576,573	214,014	313,171	—	527,185
Restricted for debt service	—	—	—	—	—	56	—	56
Restricted for capital projects	31,330	28,625	—	59,955	10,980	21,702	—	32,682
Unrestricted	18,651	197,980	178,490	395,121	49,134	183,421	118,001	350,556
Total net position	\$ 283,257	569,902	178,490	1,031,649	274,128	518,350	118,001	910,479

See accompanying notes to financial statements.

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

Years ended June 30, 2024 and 2023

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2024 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total
Operating revenues:								
Charges for services	\$ 49,330	214,154	366,594	630,078	52,570	203,847	326,777	583,194
Rents and concessions	162	198	—	360	127	156	—	283
Total operating revenues	49,492	214,352	366,594	630,438	52,697	204,003	326,777	583,477
Operating expenses:								
Personnel services	24,908	48,175	9,322	82,405	18,424	39,300	10,735	68,459
Contractual services	4,035	13,623	6,244	23,902	2,956	10,819	6,559	20,334
Transmission/distribution and other power costs	—	62,392	264	62,656	—	70,580	226	70,806
Purchased electricity	—	15,558	284,631	300,189	—	8,078	265,152	273,230
Materials and supplies	1,755	2,451	60	4,266	1,605	2,612	57	4,274
Depreciation and amortization	6,522	18,460	17	24,999	6,524	17,877	270	24,671
Services provided by other departments	3,501	6,828	4,792	15,121	3,392	8,674	4,302	16,368
General and administrative and other	3,229	33,114	6,188	42,531	17,110	33,612	7,479	58,201
Total operating expenses	43,950	200,601	311,518	556,069	50,011	191,552	294,780	536,343
Operating income	5,542	13,751	55,076	74,369	2,686	12,451	31,997	47,134
Non-operating revenues (expenses):								
Federal and state grants	—	26	—	26	1,627	937	1,173	3,737
Interest and investment income	3,255	13,744	5,904	22,903	457	3,741	405	4,603
Interest expenses	(3)	(14,472)	—	(14,475)	(4)	(9,486)	(1)	(9,491)
Amortization of premium, discount, and issuance costs	—	1,008	—	1,008	—	1,584	—	1,584
Net gain from sale of assets	2	2	—	4	4	3	—	7
Other non-operating revenues	336	8,500	386	9,222	230	12,665	325	13,220
Other non-operating expenses	(45)	(99)	(877)	(1,021)	(54)	(227)	(218)	(499)
Net non-operating revenues	3,545	8,709	5,413	17,667	2,260	9,217	1,684	13,161
Change in net position before transfers and contributions	9,087	22,460	60,489	92,036	4,946	21,668	33,681	60,295
Capital contributions	—	29,200	—	29,200	—	2,535	—	2,535
Transfers from the City and County of San Francisco	42	—	—	42	20,000	—	—	20,000
Transfers to the City and County of San Francisco	—	(108)	—	(108)	—	(32)	—	(32)
Capital contributions and net transfers	42	29,092	—	29,134	20,000	2,503	—	22,503
Change in net position	9,129	51,552	60,489	121,170	24,946	24,171	33,681	82,798
Net position at beginning of year	274,128	518,350	118,001	910,479	249,182	494,179	84,320	827,681
Net position at end of year	\$ 283,257	569,902	178,490	1,031,649	274,128	518,350	118,001	910,479

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2024 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total
Cash flows from operating activities:								
Cash received from customers, including cash deposits	\$ 49,264	211,012	357,825	618,101	52,640	201,707	324,730	579,077
Cash received from tenants for rent	153	188	—	341	129	158	—	287
Cash received from miscellaneous revenues	36	4,886	3	4,925	30	8,689	6	8,725
Cash paid to employees for services	(23,234)	(45,847)	(9,517)	(78,598)	(21,537)	(42,804)	(8,063)	(72,404)
Cash paid to suppliers for goods and services	(13,563)	(146,934)	(291,457)	(451,954)	(31,864)	(113,682)	(275,322)	(420,868)
Cash paid for judgments and claims	(357)	(3,625)	(874)	(4,856)	(331)	(5,548)	(1,725)	(7,604)
Net cash provided by (used in) operating activities	<u>12,299</u>	<u>19,680</u>	<u>55,980</u>	<u>87,959</u>	<u>(933)</u>	<u>48,520</u>	<u>39,626</u>	<u>87,213</u>
Cash flows from non-capital and related financing activities:								
Cash received from grants	59	98	—	157	389	546	1,173	2,108
Cash received for license fees	—	1,997	—	1,997	—	3,713	—	3,713
Cash received from settlements	300	—	—	300	200	244	—	444
Cash received from Public Purpose Funds	—	—	1,624	1,624	—	—	2,394	2,394
Cash paid for rebates, program incentives, and other	(34)	(78)	(864)	(976)	(54)	(227)	(218)	(499)
Transfers from the City and County of San Francisco	42	—	—	42	20,000	—	—	20,000
Transfers to the City and County of San Francisco	—	(108)	—	(108)	—	(32)	—	(32)
Net cash provided by non-capital financing activities	<u>367</u>	<u>1,909</u>	<u>760</u>	<u>3,036</u>	<u>20,535</u>	<u>4,244</u>	<u>3,349</u>	<u>28,128</u>
Cash flows from capital and related financing activities:								
Acquisition and construction of capital assets	(25,692)	(94,130)	—	(119,822)	(25,856)	(72,541)	—	(98,397)
Proceeds from sale of capital assets	2	2	—	4	4	3	—	7
Lease payments	(18)	(22)	—	(40)	(18)	(22)	(233)	(273)
Subscription payments	(82)	(66)	(18)	(166)	(172)	(139)	(39)	(350)
Proceeds from bond issuance, net of premium and discount	—	131,230	—	131,230	—	—	—	—
Principal paid on long-term debt	—	(2,035)	—	(2,035)	—	(2,397)	—	(2,397)
Proceeds from commercial paper borrowings	—	91,635	—	91,635	—	76,333	—	76,333
Principal paid on commercial paper	—	(117,333)	—	(117,333)	—	—	—	—
Interest paid on long-term debt	—	(11,221)	—	(11,221)	—	(7,886)	—	(7,886)
Interest paid on commercial paper borrowings	—	(1,969)	—	(1,969)	—	(1,327)	—	(1,327)
Issuance costs paid on long-term debt	—	(765)	—	(765)	—	—	—	—
Federal interest income subsidy	—	332	—	332	—	502	—	502
Net cash used in capital and related financing activities	<u>(25,790)</u>	<u>(4,342)</u>	<u>(18)</u>	<u>(30,150)</u>	<u>(26,042)</u>	<u>(7,474)</u>	<u>(272)</u>	<u>(33,788)</u>
Cash flows from investing activities:								
Interest income	1,083	8,568	3,838	13,489	914	3,663	1,207	5,784
Proceeds from sale of investments outside City Treasury	—	155,462	—	155,462	—	10,224	—	10,224
Purchases of investments outside City Treasury	—	(165,218)	—	(165,218)	—	(10,224)	—	(10,224)
Net cash provided by (used in) investing activities	<u>1,083</u>	<u>(1,188)</u>	<u>3,838</u>	<u>3,733</u>	<u>914</u>	<u>3,663</u>	<u>1,207</u>	<u>5,784</u>
Increase (decrease) in cash and cash equivalents	<u>(12,041)</u>	<u>16,059</u>	<u>60,560</u>	<u>64,578</u>	<u>(5,526)</u>	<u>48,953</u>	<u>43,910</u>	<u>87,337</u>
Cash and cash equivalents:								
Beginning of year	91,857	257,810	101,797	451,464	97,383	208,857	57,887	364,127
End of year	<u>\$ 79,816</u>	<u>273,869</u>	<u>162,357</u>	<u>516,042</u>	<u>91,857</u>	<u>257,810</u>	<u>101,797</u>	<u>451,464</u>
Reconciliation of cash and cash equivalents to the statements of net position:								
Cash and investments with City Treasury:								
Unrestricted	\$ 46,471	215,370	159,811	421,652	76,973	224,234	98,657	399,864
Restricted	31,330	50,732	—	82,062	10,980	17,606	—	28,586
Add: Unrealized loss on investments with City Treasury	2,015	3,465	2,546	8,026	3,904	6,605	3,140	13,649
Cash and investments outside City Treasury:								
Unrestricted	—	41	—	41	—	154	—	154
Restricted	—	14,051	—	14,051	—	9,211	—	9,211
Less: Unrealized gain on investments outside City Treasury	—	(34)	—	(34)	—	—	—	—
Less: Restricted (with maturity more than 90 days - see table in Note 3)	—	(9,756)	—	(9,756)	—	—	—	—
Cash and cash equivalents at end of year on statements of cash flows	<u>\$ 79,816</u>	<u>273,869</u>	<u>162,357</u>	<u>516,042</u>	<u>91,857</u>	<u>257,810</u>	<u>101,797</u>	<u>451,464</u>

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2024 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2023 Total
Reconciliation of operating income to net cash provided by (used in) operating activities:								
Operating income	\$ 5,542	13,751	55,076	74,369	2,686	12,451	31,997	47,134
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:								
Depreciation and amortization	6,522	18,460	17	24,999	6,524	17,877	270	24,671
Miscellaneous revenues	36	4,886	3	4,925	30	8,689	6	8,725
Provision for uncollectible accounts	—	(2,224)	1,303	(921)	—	2,626	1,593	4,219
Write-off of capital assets	—	217	—	217	192	211	—	403
Changes in operating assets and liabilities:								
Receivables:								
Charges for services	(66)	(1,855)	(10,671)	(12,592)	70	(4,714)	5,485	841
Prepaid charges, advances, and other	(659)	(372)	5,200	4,169	129	115	5,908	6,152
Due from other City departments	—	187	—	187	—	345	—	345
Inventory	22	(71)	—	(49)	(22)	59	—	37
Accounts payable	(75)	(11,486)	4,661	(6,900)	(7,421)	8,302	818	1,699
Accrued payroll	176	251	96	523	154	357	170	681
Other postemployment benefits obligations*	1,232	1,505	(481)	2,256	1,041	1,272	2,906	5,219
Pension liabilities*	(287)	(351)	173	(465)	(4,480)	(5,476)	(601)	(10,557)
Accrued vacation and sick leave	214	261	17	492	97	119	197	413
Accrued workers' compensation	78	98	—	176	(9)	(12)	—	(21)
Damage claims liability	(432)	(2,376)	(13)	(2,821)	73	5,127	2	5,202
Due to other City departments	—	(1,946)	—	(1,946)	—	1,566	—	1,566
Unearned revenues, refunds, and other liabilities	(4)	745	599	1,340	3	(394)	(9,125)	(9,516)
Total adjustments	6,757	5,929	904	13,590	(3,619)	36,069	7,629	40,079
Net cash provided by (used in) operating activities	\$ 12,299	19,680	55,980	87,959	(933)	48,520	39,626	87,213
Noncash transactions:								
Accrued capital asset costs	\$ 4,027	28,867	—	32,894	5,747	23,119	—	28,866
Receivables from Wastewater	—	405	—	405	—	518	—	518
Payable to SFMTA	—	—	—	—	—	1,946	—	1,946
Unrealized loss on investments	2,015	3,431	2,546	7,992	3,904	6,605	3,140	13,649
Capital contributions	—	29,200	—	29,200	—	2,535	—	2,535

* Includes related deferred inflows and outflows of resources.
See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(1) Description of Reporting Entity

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

Approximately 55% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, Zuckerberg San Francisco General Hospital and Trauma Center, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 45% balance of electricity is sold to CleanPowerSF and the wholesale electric market. As a result of the 1913 Raker Act, energy produced above the City's municipal load is sold first to the Districts (Modesto Irrigation District and Turlock Irrigation District) to cover their agricultural pumping and municipal load needs and any remaining energy is either sold to other municipalities and/or government agencies (not for resale) or sold into the California Independent System Operator (CAISO). Hetch Hetchy operation is an integrated system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The SFPUC is a department of the City, and as such, the financial operations of Hetch Hetchy, Wastewater, and the Water Enterprise are included in the Annual Comprehensive Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2024 and 2023, and the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) *Basis of Accounting and Measurement Focus*

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

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

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

(b) *Cash and Cash Equivalents*

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

(c) *Investments*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(d) ***Inventory***

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

(e) ***Capital Assets***

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

(f) ***Intangible Assets***

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

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

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(k) ***General Liability***

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 14(a)).

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

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements of the Clean Renewable Energy Bonds (CREBs), the Qualified Energy Conservation Bonds (QECBs), the New Clean Renewable Energy Bonds (NCREBs), and Power Revenue Bonds stipulate that the first payment of excess investment earnings, if any, is required to be rebated to the federal government, no later than 60 days after the end of the fifth bond year of the agreement or date of issuance. Hetchy Power arbitrage liability as of June 30, 2024 and 2023 were \$184 and \$0, respectively, related to 2021 Series AB and 2023 Series A revenue bonds.

(m) ***Refunding of Debt***

Gains or losses occurring from refunding of debt prior to maturity are reported as deferred outflows and deferred inflows of resources from refunding of debt. Deferred outflows and deferred inflows of resources are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(n) ***Income Taxes***

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

(o) ***Revenue Recognition***

Water and power revenues are based on water and power consumption and billing rates. Generally, customers are billed monthly. Revenues earned but unbilled are accrued as charges for services receivables on the Statements of Net Position. The unbilled amounts as of June 30, 2024 and 2023 are as follows:

		Hetchy Water	Hetchy Power	CleanPowerSF	Total
2024	\$	—	3,624	25,591	29,215
2023		—	3,470	19,694	23,164

(p) ***Use of Estimates***

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(q) ***Eliminations***

Eliminations for internal activities between the Hetchy Power and CleanPowerSF are made in the Statements of Net Position. There were no activities requiring eliminations for fiscal years ended June 30, 2024 and 2023.

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

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

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

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

(s) ***Leases***

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

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

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

Measurement of Lease Amounts (Lessee) – Hetch Hetchy's lease liability is recorded at the present value of future minimum lease payments as of the date of commencement. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the lease term. If Hetch Hetchy is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Measurement of Lease Amounts (Lessor) – Hetch Hetchy's lease receivable is measured at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments collected. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term, plus lease payments received from the lease at or before the commencement of the lease term that related to future periods. Subsequently, the deferred inflow of resources as lease revenue on a straight-line basis over the lease term.

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

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

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

- Hetch Hetchy generally uses its estimated incremental borrowing rate as the discount rate for SBITAs unless the rate is implicit in the agreement. The City's incremental borrowing rate (IBR) is established using the average of Municipal Market Data (MMD) AAA benchmark interest rate index by maturity date (year 1 to 30+), plus the average credit spread based on City's Aa/AA, COP, Tax-exempt to generate the yield curve and discount rate table.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

- The subscription term includes the noncancellable period of the subscription, plus any additional periods covered by either subscriber or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the subscriber and lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the subscription term.
- Payments are evaluated by Hetch Hetchy to determine if they should be included in the measurement of the subscription liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.
- SBITAs have a capitalization threshold of \$100.

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

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

(u) *Other Postemployment Benefits (OPEB)*

Net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value (see Note 12(b)).

(v) *New Accounting Standards Adopted in Fiscal Year 2024*

- 1) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. GASB Statement No. 99 addresses a variety of topics. The requirements related to extension of the use of the London Interbank Offered Rate, accounting for Supplemental Nutrition Assistance Program distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, and terminology updates related to Statement No. 53 and Statement No. 63 were adopted by the City for the year ended June 30, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023. The Enterprise adopted the provisions of Statement No. 99 in fiscal year 2024 which did not have a significant effect on its financial statements.
- 2) In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The new standard is effective for periods beginning after June 15, 2023. The

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Enterprise adopted the provisions of Statement No. 100 in fiscal year 2024 which did not have a significant effect on its financial statements.

(w) *GASB Statements Implemented in Fiscal Year 2023*

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

(x) *Future Implementation of New Accounting Standards*

- 1) In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The new standard is effective for periods beginning after December 15, 2023. The Enterprise will implement the provisions of Statement No. 101 in fiscal year 2025.
- 2) In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement establishes financial reporting requirements for risk related to vulnerabilities due to certain concentrations or constraints within governments. The new standard is effective for periods beginning after June 15, 2024. The Enterprise will implement the provisions of Statement No. 102 in fiscal year 2025.
- 3) In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The new standard is effective for periods beginning after June 15, 2025. The Enterprise will implement the provisions of Statement No. 103 in fiscal year 2026.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

- 4) In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This statement requires certain types of capital assets, such as lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* to be disclosed separately by major classes of underlying assets in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements* are also required to be disclosed separately. Furthermore, the statement requires intangible assets other than those three types to be disclosed separately by major class. Finally, the statement requires additional disclosures for capital assets held for sale. The new standard is effective for periods beginning after June 15, 2025. The Enterprise will implement the provisions of Statement No. 104 in fiscal year 2026.

(y) *Reclassifications*

The Hetch Hetchy Enterprise has reclassified certain amounts relating to the prior period to conform to its current period presentation. Lease receivable, lease related interest receivable, lease related interest payable, and subscription related interest payable were reclassified from net investment in capital assets to unrestricted in the statements of net position for fiscal year 2023. Furthermore, capital related liabilities were reclassified from restricted for capital projects and/or unrestricted to net investment in capital assets in the statements of net position for fiscal year 2023. These reclassifications had no effect on previously reported changes in net position.

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

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

Some restricted cash and investments are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The balances as of June 30, 2024 and 2023 were \$14,051 and \$9,211, respectively. The Enterprise held all investments in treasury and government obligations, commercial paper, as well as money market mutual funds consisting of treasury and government obligations. See Note 5 for additional information on restricted assets.

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

Certain investments such as money market investments, and cash and cash equivalents are not subject to the fair value hierarchy.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The following is a summary of the Hetch Hetchy restricted and unrestricted cash and investments outside City Treasury, including commercial paper issuers, credit ratings, and the fair value hierarchy as of June 30, 2024 and 2023.

Hetch Hetchy Cash and Investments outside City Treasury					Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	June 30, 2024		Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable Inputs (Level 2)	Unobservable Inputs (Level 3)
		Maturities	Value				
Hetchy Power							
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	\$ 4,138	4,138	—	—	—
Commercial Paper-Toyota Motor Corp	A-1+/P-1	October 11, 2024	957	—	957	—	—
Commercial Paper-Toronto-Dominion Bank	A-1+/P-1	October 28, 2024	2,946	—	2,946	—	—
U.S. Agency Securities	AA+/Aaa	April 17, 2025	2,881	—	2,881	—	—
U.S. Treasury Bonds & Notes	A-1+/P-1	October 15, 2025	2,972	—	2,972	—	—
Cash and Cash Equivalents	N/A		157	157	—	—	—
Total Restricted Cash and Investments outside City Treasury			\$ 14,051	4,295	9,756	—	—
Cash and Cash Equivalents	N/A		\$ 41	41	—	—	—
Total Unrestricted Cash and Investments outside City Treasury			\$ 41	41	—	—	—

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

As of June 30, 2024, a total of \$4,138 in restricted cash and investments outside City Treasury were invested in U.S. Treasury Money Market Funds with maturity date less than 90 days. Of this, \$4,095 were proceeds from 2023 Series A, 2021 Series AB, and 2015 Series AB bonds and \$43 were proceeds from certificates of participation. As of June 30, 2023, a total of \$9,190 in restricted cash and investments outside City Treasury were invested in U.S. Treasury Money Market Funds with maturity date less than 90 days. Of this, \$8,175 were proceeds from 2021 Series AB and 2015 Series AB bonds and \$1,015 were proceeds from certificates of participation.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Hetch Hetchy's cash, cash equivalents, and investments are shown on the accompanying Statements of Net Position as of June 30, 2024 and 2023:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2024
Current assets:				
Cash and investments with City Treasury	\$ 46,471	215,370	159,811	421,652
Cash and investments outside City Treasury	—	41	—	41
Restricted cash and investments outside City Treasury	—	6,849	—	6,849
Non-current assets:				
Restricted cash and investments with City Treasury	31,330	50,732	—	82,062
Restricted cash and investments outside City Treasury	—	7,202	—	7,202
Total cash, cash equivalents, and investments	<u>\$ 77,801</u>	<u>280,194</u>	<u>159,811</u>	<u>517,806</u>
	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2023
Current assets:				
Cash and investments with City Treasury	\$ 76,973	224,234	98,657	399,864
Cash and investments outside City Treasury	—	154	—	154
Restricted cash and investments outside City Treasury	—	5,371	—	5,371
Non-current assets:				
Restricted cash and investments with City Treasury	10,980	17,606	—	28,586
Restricted cash and investments outside City Treasury	—	3,840	—	3,840
Total cash, cash equivalents, and investments	<u>\$ 87,953</u>	<u>251,205</u>	<u>98,657</u>	<u>437,815</u>

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

Fiscal years ended June 30	Investment maturities (in months)			
	Under 1	1 to less than 6	6 to less than 12	12 to 60
2024	22.2%	19.5%	16.3%	42.0%
2023	21.5%	18.0%	14.5%	46.0%

As of June 30, 2024, Hetchy Power has the following commercial paper investments that represent 5.0% or more of the total investments outside City Treasury:

	Fair Value	% of Investments
Toronto-Dominion Bank	\$ 2,946	21.2 %
Toyota Motor Corp	957	6.9

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

a) Hetch Hetchy capital assets as of June 30, 2024 and 2023 consist of the following:

	2023	Increases	Decreases	2024
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 5,181	—	—	5,181
Intangible assets	1,437	—	—	1,437
Construction work in progress	370,470	121,442	(61,775) *	430,137
Total capital assets not being depreciated and amortized	377,088	121,442	(61,775)	436,755
Capital assets being depreciated and amortized:				
Facilities and improvements	855,790	89,163	—	944,953
Intangible assets	45,855	—	—	45,855
Machinery and equipment	152,225	4,116	—	156,341
Right-to-use lease assets	442	—	—	442
Right-to-use subscription assets	998	—	(651)	347
Total capital assets being depreciated and amortized	1,055,310	93,279 *	(651)	1,147,938
Less accumulated depreciation and amortization for:				
Facilities and improvements	(442,252)	(19,507)	—	(461,759)
Intangible assets	(23,140)	(488)	—	(23,628)
Machinery and equipment	(98,866)	(4,811)	—	(103,677)
Right-to-use lease assets	(119)	(37)	—	(156)
Right-to-use subscription assets	(717)	(156)	651	(222)
Total accumulated depreciation and amortization	(565,094)	(24,999)	651	(589,442)
Total capital assets being depreciated and amortized, net	490,216	68,280	—	558,496
Total capital assets, net	\$ 867,304	189,722	(61,775)	995,251

* Decrease in construction work in progress included \$217 in capital project write-offs, mainly related to Distribution Interface Project. The remaining difference of \$31,721 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 5,181	—	—	5,181
Intangible assets	1,437	—	—	1,437
Construction work in progress	316,530	100,380	(46,440) *	370,470
Total capital assets not being depreciated and amortized	323,148	100,380	(46,440)	377,088
Capital assets being depreciated and amortized:				
Facilities and improvements	809,945	45,845	—	855,790
Intangible assets	45,715	140	—	45,855
Machinery and equipment	148,241	4,169	(185)	152,225
Right-to-use lease assets	1,068	236	(862)	442
Right-to-use subscription assets	998	—	—	998
Total capital assets being depreciated and amortized	1,005,967	50,390 *	(1,047)	1,055,310
Less accumulated depreciation and amortization for:				
Facilities and improvements	(423,731)	(18,521)	—	(442,252)
Intangible assets	(22,680)	(460)	—	(23,140)
Machinery and equipment	(93,995)	(5,054)	183	(98,866)
Right-to-use lease assets	(704)	(277)	862	(119)
Right-to-use subscription assets	(357)	(360)	—	(717)
Total accumulated depreciation and amortization	(541,467)	(24,672)	1,045	(565,094)
Total capital assets being depreciated and amortized, net	464,500	25,718	(2)	490,216
Total capital assets, net	\$ 787,648	126,098	(46,442)	867,304

* Decrease in construction work in progress included \$403 in capital project write-offs, mainly related to 2018 Moccasin Storm Project. The remaining difference of \$4,353 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

HETCH HETCHY WATER AND POWER AND CLEANPOWER SF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

b) Hetchy Water capital assets as of June 30, 2024 and 2023 consist of the following:

	2023	Increases	Decreases	2024
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 3,232	—	—	3,232
Intangible assets	6	—	—	6
Construction work in progress	72,450	23,029	(9,595) *	85,884
Total capital assets not being depreciated and amortized	75,688	23,029	(9,595)	89,122
Capital assets being depreciated and amortized:				
Facilities and improvements	311,312	9,228	—	320,540
Intangible assets	20,522	—	—	20,522
Machinery and equipment	29,891	1,310	—	31,201
Right-to-use lease assets	198	—	—	198
Right-to-use subscription assets	490	—	(320)	170
Total capital assets being depreciated and amortized	362,413	10,538 *	(320)	372,631
Less accumulated depreciation and amortization for:				
Facilities and improvements	(185,066)	(5,353)	—	(190,419)
Intangible assets	(10,361)	(207)	—	(10,568)
Machinery and equipment	(22,232)	(870)	—	(23,102)
Right-to-use lease assets	(53)	(16)	—	(69)
Right-to-use subscription assets	(353)	(76)	320	(109)
Total accumulated depreciation and amortization	(218,065)	(6,522)	320	(224,267)
Total capital assets being depreciated and amortized, net	144,348	4,016	—	148,364
Total capital assets, net	\$ 220,036	27,045	(9,595)	237,486

* The difference between decrease in construction work in progress and increase in capital assets being depreciated due to direct additions to facilities, improvements, machinery, and equipment.

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 3,232	—	—	3,232
Intangible assets	6	—	—	6
Construction work in progress	54,138	25,032	(6,720) *	72,450
Total capital assets not being depreciated and amortized	57,376	25,032	(6,720)	75,688
Capital assets being depreciated and amortized:				
Facilities and improvements	306,116	5,196	—	311,312
Intangible assets	20,522	—	—	20,522
Machinery and equipment	28,383	1,566	(58)	29,891
Right-to-use lease assets	67	105	26	198
Right-to-use subscription assets	490	—	—	490
Total capital assets being depreciated and amortized	355,578	6,867 *	(32)	362,413
Less accumulated depreciation and amortization for:				
Facilities and improvements	(179,839)	(5,227)	—	(185,066)
Intangible assets	(10,154)	(207)	—	(10,361)
Machinery and equipment	(21,397)	(892)	57	(22,232)
Right-to-use lease assets	(6)	(21)	(26)	(53)
Right-to-use subscription assets	(176)	(177)	—	(353)
Total accumulated depreciation and amortization	(211,572)	(6,524)	31	(218,065)
Total capital assets being depreciated and amortized, net	144,006	343	(1)	144,348
Total capital assets, net	\$ 201,382	25,375	(6,721)	220,036

* Decrease in construction work in progress included \$192 in capital project write-offs, mainly related to Hetchy Water's share of 2018 Moccasin Storm Project. The remaining difference of \$339 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

c) Hetchy Power capital assets as of June 30, 2024 and 2023 consist of the following:

	2023	Increases	Decreases	2024
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 1,949	—	—	1,949
Intangible assets	1,431	—	—	1,431
Construction work in progress	298,020	98,413	(52,180) *	344,253
Total capital assets not being depreciated and amortized	301,400	98,413	(52,180)	347,633
Capital assets being depreciated and amortized:				
Facilities and improvements	544,478	79,935	—	624,413
Intangible assets	25,333	—	—	25,333
Machinery and equipment	122,334	2,806	—	125,140
Right-to-use lease assets	244	—	—	244
Right-to-use subscription assets	397	—	(257)	140
Total capital assets being depreciated and amortized	692,786	82,741 *	(257)	775,270
Less accumulated depreciation and amortization for:				
Facilities and improvements	(257,186)	(14,154)	—	(271,340)
Intangible assets	(12,779)	(281)	—	(13,060)
Machinery and equipment	(76,634)	(3,941)	—	(80,575)
Right-to-use lease assets	(66)	(21)	—	(87)
Right-to-use subscription assets	(283)	(63)	257	(89)
Total accumulated depreciation and amortization	(346,948)	(18,460)	257	(365,151)
Total capital assets being depreciated and amortized, net	345,838	64,281	—	410,119
Total capital assets, net	\$ 647,238	162,694	(52,180)	757,752

* Decrease in construction work in progress included \$217 in capital project write-offs, mainly related to Distribution Interface Project. The remaining difference of \$30,778 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

	2022	Increases	Decreases	2023
Capital assets not being depreciated and amortized:				
Land and rights-of-way	\$ 1,949	—	—	1,949
Intangible assets	1,431	—	—	1,431
Construction work in progress	262,392	75,348	(39,720) *	298,020
Total capital assets not being depreciated and amortized	265,772	75,348	(39,720)	301,400
Capital assets being depreciated and amortized:				
Facilities and improvements	503,829	40,649	—	544,478
Intangible assets	25,193	140	—	25,333
Machinery and equipment	119,858	2,603	(127)	122,334
Right-to-use lease assets	81	131	32	244
Right-to-use subscription assets	397	—	—	397
Total capital assets being depreciated and amortized	649,358	43,523 *	(95)	692,786
Less accumulated depreciation and amortization for:				
Facilities and improvements	(243,892)	(13,294)	—	(257,186)
Intangible assets	(12,526)	(253)	—	(12,779)
Machinery and equipment	(72,598)	(4,162)	126	(76,634)
Right-to-use lease assets	(8)	(26)	(32)	(66)
Right-to-use subscription assets	(141)	(142)	—	(283)
Total accumulated depreciation and amortization	(329,165)	(17,877)	94	(346,948)
Total capital assets being depreciated and amortized, net	320,193	25,646	(1)	345,838
Total capital assets, net	\$ 585,965	100,994	(39,721)	647,238

* Decrease in construction work in progress included \$211 in capital project write-offs, mainly related to Hetchy Power's share of 2018 Moccasin Storm Project. The remaining difference of \$4,014 to capital asset additions was offset by direct additions to facilities, improvements, machinery, and equipment.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

d) CleanPowerSF capital assets as of June 30, 2024 and 2023 consist of the following:

	2023	Increases	Decreases	2024
Capital assets being depreciated and amortized:				
Right-to-use subscription assets	\$ 111	—	(74)	37
Total capital assets being depreciated and amortized	111	—	(74)	37
Less accumulated depreciation and amortization for:				
Right-to-use subscription assets	(81)	(17)	74	(24)
Total accumulated depreciation and amortization	(81)	(17)	74	(24)
Total capital assets being depreciated and amortized, net	30	(17)	—	13
Total capital assets, net	\$ 30	(17)	—	13

	2022	Increases	Decreases	2023
Capital assets being depreciated and amortized:				
Right-to-use lease assets	\$ 920	—	(920)	—
Right-to-use subscription assets	111	—	—	111
Total capital assets being depreciated and amortized	1,031	—	(920)	111
Less accumulated depreciation and amortization for:				
Right-to-use lease assets	(690)	(230)	920	—
Right-to-use subscription assets	(40)	(41)	—	(81)
Total accumulated depreciation and amortization	(730)	(271)	920	(81)
Total capital assets being depreciated and amortized, net	301	(271)	—	30
Total capital assets, net	\$ 301	(271)	—	30

See Notes 9 and 10 for additional information about right-to-use assets for leases and SBITAs.

(5) Restricted Assets

Pursuant to the Hetchy Power Trust Indenture (the “Indenture”), established in fiscal year 2015, net revenues of the Hetchy Power are pledged first to the 2015 Series AB Bonds, 2021 Series AB Bonds, and 2023 Series A Bonds, and have a priority lien on the pledge of net revenues to the outstanding QECBs and NCREBs (the “Subordinate Obligations”). The Lease/Purchase Agreements for the Subordinate Obligations pledge the net revenues of the Hetchy Power to these bonds, and such pledge is subordinate in lien to the net revenues pledge for the 2015 Series AB Bonds, 2021 Series AB Bonds, and 2023 Series A Bonds (the “Bonds” or “Bond”).

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

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

1. The payment of operation and maintenance expenses;
2. Any priority reconstruction and replacement fund deposits;
3. Deposit in the interest account of each Bond Fund;
4. Deposit in the bond retirement account of each Bond Fund;
5. Deposit in the reserve fund;
6. (i) Payment of principal and premium, if any, and interest on any Subordinate Obligations; (ii) deposit into a reserve fund securing any Subordinate Obligations; (iii) Swap Agreement payments pursuant to Swap Agreements entered into by the SFPUC with respect to any Subordinate Obligations; and (iv) payment to any financial institution or insurance company

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal or interest on any Subordinate Obligations; in each case in any order of priority within this paragraph which may be hereafter established by the SFPUC resolution;

7. Any additional reconstruction and replacement fund deposits into the reconstruction and replacement fund;
8. Any necessary or desirable capital additions or improvements to the Hetchy Power;
9. Any payment under a Take-or-Pay Power Purchase Agreement that does not constitute an operation and maintenance expense;
10. Any payment under a Swap Agreement that does not constitute a Swap Agreement payment; and
11. Any other lawful purpose of the SFPUC.

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

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

(a) Hetchy Water has the following restricted assets held in trust as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	\$ 31,330	10,980
Total restricted assets	<u>\$ 31,330</u>	<u>10,980</u>

(b) Hetchy Power has the following restricted assets held in trust as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	\$ 50,732	17,606
Cash and investments outside City Treasury:		
2009 Series C Certificates of participation - 525 Golden Gate	131	231
2009 Series D Certificates of participation - 525 Golden Gate	1,000	784
2015 Series A Revenue Bonds	2,205	2,261
2015 Series B Revenue Bonds	518	532
2021 Series AB Revenue Bonds	442	5,382
2023 Series A Revenue Bonds	9,730	—
Commercial Paper	25	21
Total restricted cash and investments outside City Treasury	<u>14,051</u>	<u>9,211</u>
Interest and other receivables:		
Hetch Hetchy bond construction fund	169	4,151
Total restricted assets	<u>\$ 64,952</u>	<u>30,968</u>

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

(6) Short-Term Debt

Effective March 2019, under Charter Sections 9.107(6) and 9.107(8), and 2018 Proposition A, the Commission and Board of Supervisors authorized the issuance of up to \$250,000 in commercial paper notes for the purpose of reconstructing, replacing, expanding, repairing or improving power facilities of Hetchy Power. Interest rates for the commercial paper ranged from 2.8% to 3.7% and 1.1% to 3.2% in fiscal years 2024 and 2023, respectively. The Enterprise had \$90,654 and

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

\$116,352 commercial paper outstanding as of June 30, 2024 and 2023, respectively. The Enterprise had \$159,346 and \$133,648 in unused authorization as of June 30, 2024 and 2023, respectively.

\$117,333 was repaid by the 2023 Series A bonds issued on October 12, 2023 and has been reclassified to long-term liabilities on the June 30, 2023 financial statements.

The commercial paper notes can be issued in the aggregate principal amounts of up to \$250,000, and may be marketed and re-marketed with maturities up to 270 days and are secured by two separate bank credit facilities, as set forth below. The commercial paper notes are payable from revenues, and are secured on a parity lien basis with each other and with the outstanding 2011 QECBs and 2015 NCREBs, collectively the "Subordinate Obligations." The Subordinate Obligations are secured on a subordinate basis to the payment of debt service on the Power Revenue Bonds.

As of June 30, 2024, the Commercial Paper Notes are secured by the following series: Series A-1 is secured by a \$125,000 letter of credit from Bank of America N.A. which expires on March 6, 2026. The agreement for the Series A-1 facility stipulates a quarterly commitment fee of 0.31%, on the maintenance of ratings of at least "AA-" by S&P and "AA-" by Fitch Ratings. Series A-2 is secured by a \$125,000 letter of credit from Bank of America N.A. which expires on March 6, 2026. The agreement for the Series A-2 credit facility stipulates a quarterly commitment fee of 0.29%, on the maintenance of ratings of at least "AA-" by S&P and "AA-" by Fitch Ratings.

Barclays Capital Inc., Goldman Sachs & Co. LLC, and RBC Capital Markets, LLC serve as dealers for the commercial paper notes. The annual fee is 0.05% paid to Barclays Capital LLC and Goldman Sachs & Co. LLC and 0.045% paid to RBC Capital markets, LLC on the average outstanding principal amount of the commercial paper notes managed by the respective dealer.

The commercial paper reimbursement agreements for the Enterprise contain a provision that in the event advances (or drawings) remain unpaid, such advances (or drawings) will convert into term loans and will be subject to the repayment provisions relating thereto.

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, significant events of default include 1) payment defaults, 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the respective agreements (not cured within applicable grace periods), and 3) bankruptcy and insolvency events, which may result in all outstanding obligations to be immediately due and payable (unless waived by the respective Bank, if applicable); or issuance of a No-Issuance Notice, reduction in credit to outstanding amount plus interest coverage, and/or termination of the respective agreement. As of June 30, 2024 and 2023, there were no such events described herein.

HETCH HETCHY WATER AND POWER AND CLEANPOWER SF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

a) Hetch Hetchy's long-term liability activities for the years ended June 30, 2024 and 2023 are as follows:

	Interest rate	Maturity (Calendar Year)	2023	Additions	Reductions	2024	Due within one year
Bonds:							
Qualified Energy Conservation Bonds	4.74 %	2027	\$ 2,583	—	(562)	2,021	569
New Clean Renewable Energy Bonds 2015	4.62	2032	1,491	—	(148)	1,343	150
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	2,885	—	(880)	2,005	910
2021 Series A Revenue Bonds	4.00 - 5.00	2051	74,280	—	—	74,280	1,385
2021 Series B Revenue Bonds	4.00 - 5.00	2051	49,720	—	—	49,720	585
2023 Series A Revenue Bonds	5.00	2053	—	123,905	—	123,905	—
Add issuance premiums			27,948	7,325	(1,773)	33,500	—
Total bonds payable			190,932	131,230	(3,363)	318,799	3,599
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	(445)	12,148	463
Commercial paper*	2.80 - 3.69	2024	116,352	—	(116,352)	—	—
Net other postemployment benefits liability			37,180	8,514	(5,353)	40,341	—
Net pension liability			33,468	23,988	(11,471)	45,985	—
Accrued vacation and sick leave			6,725	3,303	(2,811)	7,217	3,723
Accrued workers' compensation			3,457	1,000	(824)	3,633	645
Arbitrage rebate payable			—	184	—	184	—
Damage claims liability			6,884	10,284	(13,105)	4,063	2,010
Due to other City departments			1,946	—	(1,946)	—	—
Lease liability			307	—	(35)	272	35
Liabilities payable from restricted assets			—	28,867	—	28,867	25,513
Subscription liability			286	—	(163)	123	61
Unearned revenues, refunds, and other			12,716	26,358	(23,798)	15,276	14,696
Total			\$ 422,846	233,728	(179,666)	476,908	50,745

* Commercial paper is short-term in fiscal year 2024.

	Interest rate	Maturity (Calendar Year)	2022	Additions	Reductions	2023	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 421	—	(421)	—	—
Qualified Energy Conservation Bonds	4.74	2027	3,138	—	(555)	2,583	562
New Clean Renewable Energy Bonds 2015	4.62	2032	1,637	—	(146)	1,491	148
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	3,735	—	(850)	2,885	880
2021 Series A Revenue Bonds	4.00 - 5.00	2051	74,280	—	—	74,280	—
2021 Series B Revenue Bonds	4.00 - 5.00	2051	49,720	—	—	49,720	—
Less issuance discount			(6)	—	6	—	—
Add issuance premiums			29,536	—	(1,588)	27,948	—
Total bonds payable			194,486	—	(3,554)	190,932	1,590
2009 Series C Certificates of participation (COPs) 2.00 - 5.00		2022	425	—	(425)	—	—
2009 Series C COPs issuance premiums			2	—	(2)	—	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	445
Commercial paper	1.05 - 3.15	2023	—	116,352	—	116,352	—
Net other postemployment benefits liability			33,909	3,271	—	37,180	—
Net pension liability			—	33,468	—	33,468	—
Accrued vacation and sick leave			6,312	2,989	(2,576)	6,725	3,393
Accrued workers' compensation			3,478	300	(321)	3,457	617
Damage claims liability			1,682	12,497	(7,295)	6,884	766
Due to other City departments			380	1,946	(380)	1,946	1,946
Lease liability			369	236	(298)	307	35
Subscription liability			632	—	(346)	286	163
Unearned revenues, refunds, and other			20,057	33,434	(40,775)	12,716	12,136
Total			\$ 274,325	204,493	(55,972)	422,846	21,091

HETCH HETCHY WATER AND POWER AND CLEANPOWER SF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

- b) Hetchy Water's long-term liability activities for the years ended June 30, 2024 and 2023 are as follows:

	2023	Additions	Reductions	2024	Due within one year
Net other postemployment benefits liability	\$ 14,907	3,469	(2,107)	16,269	—
Net pension liability	14,105	9,809	(4,824)	19,090	—
Accrued vacation and sick leave	2,266	927	(713)	2,480	1,272
Accrued workers' compensation	1,219	337	(259)	1,297	228
Damage claims liability	700	96	(528)	268	121
Lease liability	138	—	(16)	122	16
Subscription liability	139	—	(80)	59	30
Unearned revenues, refunds, and other	110	10	(14)	106	106
Total	<u>\$ 33,584</u>	<u>14,648</u>	<u>(8,541)</u>	<u>39,691</u>	<u>1,773</u>

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

- c) Hetchy Power's long-term liability activities for the years ended June 30, 2024 and 2023 are as follows:

	Interest rate	Maturity (Calendar Year)	2023	Additions	Reductions	2024	Due within one year
Bonds:							
Qualified Energy Conservation Bonds	4.74 %	2027	\$ 2,583	—	(562)	2,021	569
New Clean Renewable Energy Bonds 2015	4.62	2032	1,491	—	(148)	1,343	150
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	2,885	—	(880)	2,005	910
2021 Series A Revenue Bonds	4.00 - 5.00	2051	74,280	—	—	74,280	1,385
2021 Series B Revenue Bonds	4.00 - 5.00	2051	49,720	—	—	49,720	585
2023 Series A Revenue Bonds	5.00	2053	—	123,905	—	123,905	—
Add issuance premiums			27,948	7,325	(1,773)	33,500	—
Total bonds payable			190,932	131,230	(3,363)	318,799	3,599
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	(445)	12,148	463
Commercial paper*	2.80 - 3.69	2024	116,352	—	(116,352)	—	—
Net other postemployment benefits liability			18,220	4,239	(2,576)	19,883	—
Net pension liability			17,239	11,989	(5,896)	23,332	—
Accrued vacation and sick leave			3,716	2,123	(1,862)	3,977	2,038
Accrued workers' compensation			2,238	663	(565)	2,336	417
Arbitrage rebate payable			—	184	—	184	—
Damage claims liability			6,150	9,273	(11,649)	3,774	1,872
Due to other City departments			1,946	—	(1,946)	—	—
Lease liability			169	—	(19)	150	19
Liabilities payable from restricted assets			—	28,867	—	28,867	25,513
Subscription liability			116	—	(65)	51	25
Unearned revenues, refunds, and other			6,460	7,465	(6,741)	7,184	6,604
Total			<u>\$ 376,131</u>	<u>196,033</u>	<u>(151,479)</u>	<u>420,685</u>	<u>40,550</u>

* Commercial paper is short-term in fiscal year 2024.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

	Interest rate	Maturity (Calendar Year)	2022	Additions	Reductions	2023	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	\$ 421	—	(421)	—	—
Qualified Energy Conservation Bonds	4.74	2027	3,138	—	(555)	2,583	562
New Clean Renewable Energy Bonds 2015	4.62	2032	1,637	—	(146)	1,491	148
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	3,735	—	(850)	2,885	880
2021 Series A Revenue Bonds	4.00 - 5.00	2051	74,280	—	—	74,280	—
2021 Series B Revenue Bonds	4.00 - 5.00	2051	49,720	—	—	49,720	—
Less issuance discount			(6)	—	6	—	—
Add issuance premiums			29,536	—	(1,588)	27,948	—
Total bonds payable			194,486	—	(3,554)	190,932	1,590
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	425	—	(425)	—	—
2009 Series C COPs issuance premiums			2	—	(2)	—	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	445
Commercial paper	1.05 - 3.15	2023	—	116,352	—	116,352	—
Net other postemployment benefits liability			17,405	815	—	18,220	—
Net pension liability			—	17,239	—	17,239	—
Accrued vacation and sick leave			3,597	1,838	(1,719)	3,716	1,867
Accrued workers' compensation			2,250	224	(236)	2,238	401
Damage claims liability			1,023	10,439	(5,312)	6,150	450
Due to other City departments			380	1,946	(380)	1,946	1,946
Lease liability			75	131	(37)	169	19
Subscription liability			253	—	(137)	116	65
Unearned revenues, refunds, and other			6,727	10,385	(10,652)	6,460	5,880
Total			\$ 239,216	159,369	(22,454)	376,131	12,663

d) CleanPowerSF's long-term liability activities for the years ended June 30, 2024 and 2023 are as follows:

	2023	Additions	Reductions	2024	Due within one year
Net other postemployment benefits liability	\$ 4,053	806	(670)	4,189	—
Net pension liability	2,124	2,190	(751)	3,563	—
Accrued vacation and sick leave	743	253	(236)	760	413
Damage claims liability	34	915	(928)	21	17
Subscription liability	31	—	(18)	13	6
Unearned revenues, refunds, and other	6,146	18,883	(17,043)	7,986	7,986
Total	\$ 13,131	23,047	(19,646)	16,532	8,422

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

(a) *Qualified Energy Conservation Bonds*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the QECBs outstanding as of June 30, 2024 is as follows:

Fiscal years ending June 30:	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2025	\$ 569	89	(63)	26
2026	576	62	(44)	18
2027	582	35	(24)	11
2028	294	7	(4)	3
	2,021	193	(135)	58
Less: Current portion	(569)			
Long-term portion as of June 30, 2024	\$ 1,452			

* The SFPUC received an IRS notice dated April 17, 2024 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$8 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

(b) *New Clean Renewable Energy Bonds 2015*

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

The future annual debt service relating to the 2015 NCREBs outstanding as of June 30, 2024 is as follows:

Fiscal years ending June 30:	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2025	\$ 150	60	(40)	20
2026	152	53	(35)	18
2027	154	47	(31)	16
2028	156	39	(26)	13
2029	159	32	(21)	11
2030-2033	572	53	(35)	18
	1,343	284	(188)	96
Less: Current portion	(150)			
Long-term portion as of June 30, 2024	\$ 1,193			

* The SFPUC received an IRS notice dated April 17, 2024 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$11 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

(c) *Power Revenue Bonds 2015 Series A (Green) and Series B*

In May 2015, Hetchy Power issued tax-exempt revenue bonds, 2015 Series A (Green) in the amount of \$32,025 with interest rates ranging from 4.0% to 5.0% and 2015 Series B in the amount of \$7,530 with interest rates ranging from 3.0% to 4.0%. Proceeds from the bonds were used to finance reconstruction or replacement of existing facilities of the SFPUC's Hetch Hetchy project, to fund capitalized interest on the 2015 Series AB Bonds, to fund a debt service reserve account for the 2015 Series AB Bonds, and to pay costs of issuance of the 2015 Series AB bonds. The bonds were rated "A+" and "AA-" by S&P and Fitch, respectively. Final maturity for 2015 Series AB are November 1, 2045 and November 1, 2026, respectively. The true interest cost is 3.95%. As of June 30, 2024 and 2023, the outstanding principal amounts were \$34,030 and \$34,910, respectively.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the 2015 Series AB Bonds outstanding as of June 30, 2024 is as follows:

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

Fiscal years ending June 30:	Principal	Interest	Total
2025	\$ —	1,593	1,593
2026	—	1,593	1,593
2027	830	1,576	2,406
2028	1,020	1,534	2,554
2029	1,075	1,482	2,557
2030-2034	6,225	6,528	12,753
2035-2039	7,940	4,765	12,705
2040-2044	10,135	2,516	12,651
2045-2046	4,800	243	5,043
	<u>32,025</u>	<u>21,830</u>	<u>53,855</u>
Add: Unamortized bond premium	2,794		
Long-term portion as of June 30, 2024	\$ <u>34,819</u>		

Hetchy Power - Power Revenue Bonds 2015 Series B

Fiscal years ending June 30:	Principal	Interest	Total
2025	\$ 910	62	972
2026	945	25	970
2027	150	3	153
	<u>2,005</u>	<u>90</u>	<u>2,095</u>
Less: Current portion	(910)		
Add: Unamortized bond premium	28		
Long-term portion as of June 30, 2024	\$ <u>1,123</u>		

(d) *Power Revenue Bonds 2021 Series A (Green) and Series B*

In December 2021, Hetchy Power issued tax-exempt revenue bonds, 2021 Series A (Green) in the amount of \$74,280 with interest rates ranging from 4.0% to 5.0% and 2021 Series B in the amount of \$49,720 with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used to refinance a portion of the costs of various capital projects benefiting the Power Enterprise, to fund capitalized interest on the 2021 Series AB Bonds, and to pay costs of issuance. The bonds were rated “AA” and “AA-” by S&P and Fitch, respectively. Final maturity for 2021 Series AB are November 1, 2051. The true interest cost is 2.64%. As of June 30, 2024 and 2023, the outstanding principal amount was \$124,000.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the 2021 Series AB Bonds outstanding as of June 30, 2024 is as follows:

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

Fiscal years ending June 30:	Principal	Interest	Total
2025	\$ 1,385	3,050	4,435
2026	1,455	2,979	4,434
2027	1,530	2,905	4,435
2028	1,605	2,826	4,431
2029	1,690	2,744	4,434
2030-2034	9,730	12,442	22,172
2035-2039	11,940	10,221	22,161
2040-2044	14,590	7,577	22,167
2045-2049	17,825	4,346	22,171
2050-2052	12,530	765	13,295
	<u>74,280</u>	<u>49,855</u>	<u>124,135</u>
Less: Current portion	(1,385)		
Add: Unamortized bond premium	14,095		
Long-term portion as of June 30, 2024	<u>\$ 86,990</u>		

Hetchy Power - Power Revenue Bonds 2021 Series B

Fiscal years ending June 30:	Principal	Interest	Total
2025	\$ 585	2,030	2,615
2026	620	2,000	2,620
2027	650	1,969	2,619
2028	685	1,935	2,620
2029	715	1,900	2,615
2030-2034	4,130	8,932	13,062
2035-2039	5,220	7,964	13,184
2040-2044	6,465	6,798	13,263
2045-2049	15,985	4,887	20,872
2050-2052	14,665	896	15,561
	<u>49,720</u>	<u>39,311</u>	<u>89,031</u>
Less: Current portion	(585)		
Add: Unamortized bond premium	9,422		
Long-term portion as of June 30, 2024	<u>\$ 58,557</u>		

(e) *Power Revenue Bonds 2023 Series A*

In October 2023, Hetchy Power issued tax-exempt power revenue bonds, 2023 Series A in the amount of \$123,905 with coupon interest rates of 5.0%. Proceeds from the bonds were used to finance or refinance Power Enterprise projects through the retirement of commercial paper issued as interim financing for such projects in furtherance of the Power Capital Improvement Program, to fund capitalized interest, and to pay costs of issuance. The bonds were rated "AA" and "AA-" by S&P and Fitch, respectively. Final maturity for 2023 Series A is November 1, 2053. The true interest cost is 4.56%. As of June 30, 2024, the outstanding principal amount was \$123,905.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the 2023 Series A Bonds outstanding as of June 30, 2024 is as follows:

Hetchy Power - Power Revenue Bonds 2023 Series A

Fiscal years ending June 30:	Principal	Interest	Total
2025	\$ —	6,195	6,195
2026	—	6,195	6,195
2027	1,075	6,168	7,243
2028	1,445	6,105	7,550
2029	1,820	6,024	7,844
2030-2034	10,915	28,603	39,518
2035-2039	14,640	25,403	40,043
2040-2044	18,760	21,251	40,011
2045-2049	24,090	15,922	40,012
2050-2054	51,160	8,080	59,240
	<u>123,905</u>	<u>129,946</u>	<u>253,851</u>
Add: Unamortized bond premium	7,161		
Long-term portion as of June 30, 2024	<u>\$ 131,066</u>		

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the certificates of participation 2009 Series D outstanding as of June 30, 2024 is as follows:

Hetchy Power - Certificates of Participation 2009 Series D (Taxable BABs)				
		Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
Fiscal years ending June 30:	Principal			
2025	\$ 463	769	(254)	515
2026	483	739	(244)	495
2027	503	709	(234)	475
2028	524	675	(223)	452
2029	546	641	(212)	429
2030-2034	3,099	2,637	(870)	1,767
2035-2039	3,822	1,519	(501)	1,018
2040-2042	2,708	269	(89)	180
	<u>12,148</u>	<u>7,958</u>	<u>(2,627)</u>	<u>5,331</u>
Less: Current portion	(463)			
Long-term portion as of June 30, 2024	<u>\$ 11,685</u>			

* The SFPUC received an IRS notice dated April 17, 2024 that the federal interest subsidy is reduced by 5.7% or a total reduction of \$159 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same after fiscal year 2024.

(g) *Events of Default and Remedies*

In accordance with GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, significant events of default as specified in the Power Enterprise Indenture (applicable to Power Revenue Bonds and energy bonds) and the Equipment Lease/Purchase Agreement include 1) non-payment, 2) material breach of warranty, representation, or indenture covenants (not cured within applicable grace periods) and 3) bankruptcy and insolvency events, which may result in the Trustee (upon written request by the majority of the owners (by aggregate amount of the bond obligations), declare the principal and the interest accrued thereon to be due and payable immediately. As of June 30, 2024 and 2023, there were no such events described herein. See Note 15(a) for information about CleanPowerSF guarantee.

(8) **Revenue Pledge**

Hetchy Power has pledged future power revenues to repay the 2011 QECBs and the 2015 NCREBs. Additionally, Hetchy Power has pledged future power revenues for 2015 Series AB, 2021 Series AB, and 2023 Series A power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. 2015 Series AB, 2021 Series AB, and 2023 Series A power revenue bonds are payable through fiscal years 2046, 2052, and 2054, respectively, and are solely payable from net revenues of Hetchy Power on a senior lien basis to the 2011 QECBs and the 2015 NCREBs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Outstanding bonds issued with revenue pledge, total principal and interest remaining, principal and interest paid during fiscal years 2024 and 2023, applicable net revenues, and funds available for debt service are as follows:

Hetchy Power		2024	2023
Bonds issued with revenue pledge	\$	285,299	162,984
Principal and interest remaining due at the end of the year		526,808	281,546
Principal and interest paid during the year*		3,458	3,905
Net revenues for the year ended June 30		50,471	52,195
Funds available for debt service		166,641	162,399

*Per Indenture, debt service for coverage is calculated using the amount of principal and interest paid during the year for the 2015 Series AB, 2021 Series AB, and 2023 Series A power revenue bonds net of capitalized interest, if any, which have a senior lien on Power Enterprise revenues; principal and interest paid during the year for the 2015 Series AB, 2021 Series AB, and 2023 Series A power revenue bonds was \$2,565, net of capitalized interest.

(9) Leases

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

A summary of intangible right-to-use leases during the years ended June 30, 2024 and 2023 are as follows:

	2023	Increases	Decreases	Remeasurements	2024
Hetch Hetchy					
Right-to-use assets: Building/facility	\$ 442	—	—	—	442
Total lease assets	442	—	—	—	442
Less accumulated amortization for:					
Building/facility	(119)	(37)	—	—	(156)
Total accumulated amortization	(119)	(37)	—	—	(156)
Total lease assets, net	\$ 323	(37)	—	—	286
Hetch Water					
Right-to-use assets: Building/facility	\$ 198	—	—	—	198
Total lease assets	198	—	—	—	198
Less accumulated amortization for:					
Building/facility	(53)	(16)	—	—	(69)
Total accumulated amortization	(53)	(16)	—	—	(69)
Total lease assets, net	\$ 145	(16)	—	—	129
Hetch Power					
Right-to-use assets: Building/facility	\$ 244	—	—	—	244
Total lease assets	244	—	—	—	244
Less accumulated amortization for:					
Building/facility	(66)	(21)	—	—	(87)
Total accumulated amortization	(66)	(21)	—	—	(87)
Total lease assets, net	\$ 178	(21)	—	—	157

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

A summary of changes in the related lease liabilities during the years ended June 30, 2024 and 2023 are as follows:

Fiscal years	Beginning of year	Additions	Remeasurements	Deductions	End of year	Due within one year
Hetch Hetchy						
2024	\$ 307	—	—	(35)	272	35
2023	369	—	236	(298)	307	35
Hetchy Water						
2024	\$ 138	—	—	(16)	122	16
2023	62	—	105	(29)	138	16
Hetchy Power						
2024	\$ 169	—	—	(19)	150	19
2023	75	—	131	(37)	169	19
CleanPowerSF						
2024	\$ —	—	—	—	—	—
2023	232	—	—	(232)	—	—

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Future annual lease payments as of the years ended June 30, 2024 and 2023 are as follows:

Hetchy Water

Fiscal years ending June 30:	Principal	Interest	Total
2025	\$ 16	2	18
2026	16	2	18
2027	16	2	18
2028	17	1	18
2029	17	1	18
2030-2034	17	4	21
2035-2039	19	1	20
2040-2042	4	—	4
	<u>122</u>	<u>13</u>	<u>135</u>
Less: Current portion	(16)		
Long-term portion as of June 30, 2024	<u>\$ 106</u>		

Hetchy Power

Fiscal years ending June 30:	Principal	Interest	Total
2025	\$ 19	3	22
2026	20	2	22
2027	20	2	22
2028	20	2	22
2029	21	1	22
2030-2034	21	4	25
2035-2039	24	2	26
2040-2042	5	—	5
	<u>150</u>	<u>16</u>	<u>166</u>
Less: Current portion	(19)		
Long-term portion as of June 30, 2024	<u>\$ 131</u>		

Hetchy Water

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

Hetchy Power

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

Certain equipment or facility rental leases require Hetch Hetchy to make variable lease payments that based on usage, related to the property taxes levied on the lessor, and insurance payments made by the lessor; these amounts are generally determined annually. During the year ended June 30, 2024, there was no amount recognized as expense for variable lease payments not included in the measurement of the lease liability. During the year ended June 30, 2023, the amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were \$160 for CleanPowerSF and \$0 for Hetchy Water and Hetchy Power.

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

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

A summary of intangible right-to-use subscription IT assets during the years ended June 30, 2024 and 2023 are as follows:

	<u>2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasurements</u>	<u>2024</u>
Hetch Hetchy					
Subscription assets	\$ 998	—	(651)	—	347
Less accumulated amortization	(717)	(156)	651	—	(222)
Total subscription assets, net	<u>\$ 281</u>	<u>(156)</u>	<u>—</u>	<u>—</u>	<u>125</u>
Hetch Water					
Subscription assets	\$ 490	—	(320)	—	170
Less accumulated amortization	(353)	(76)	320	—	(109)
Total subscription assets, net	<u>\$ 137</u>	<u>(76)</u>	<u>—</u>	<u>—</u>	<u>61</u>
Hetch Power					
Subscription assets	\$ 397	—	(257)	—	140
Less accumulated amortization	(283)	(63)	257	—	(89)
Total subscription assets, net	<u>\$ 114</u>	<u>(63)</u>	<u>—</u>	<u>—</u>	<u>51</u>
CleanPowerSF					
Subscription assets	\$ 111	—	(74)	—	37
Less accumulated amortization	(81)	(17)	74	—	(24)
Total subscription assets, net	<u>\$ 30</u>	<u>(17)</u>	<u>—</u>	<u>—</u>	<u>13</u>

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

A summary of changes in the related subscription liabilities during the years ended June 30, 2024 and 2023 are as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>End of year</u>	<u>Due within one year</u>
Hetch Hetchy						
2024	\$ 286	—	—	(163)	123	61
2023	632	—	—	(346)	286	163
Hetchy Water						
2024	\$ 139	—	—	(80)	59	30
2023	309	—	—	(170)	139	80
Hetchy Power						
2024	\$ 116	—	—	(65)	51	25
2023	253	—	—	(137)	116	65
CleanPowerSF						
2024	\$ 31	—	—	(18)	13	6
2023	70	—	—	(39)	31	18

Future annual subscription payments as of the years ended June 30, 2024 and 2023 are as follows:

Hetchy Water

Fiscal years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 30	2	32
2026	29	1	30
	59	3	62
Less: Current portion	(30)		
Long-term portion as of June 30, 2024	<u>\$ 29</u>		

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Hetchy Power

Fiscal years ending June 30:

	Principal	Interest	Total
2025	\$ 25	1	26
2026	26	—	26
	51	1	52
Less: Current portion	(25)		
Long-term portion as of June 30, 2024	\$ 26		

Clean Power

Fiscal years ending June 30:

	Principal	Interest	Total
2025	\$ 6	—	6
2026	7	—	7
	13	—	13
Less: Current portion	(6)		
Long-term portion as of June 30, 2024	\$ 7		

Hetchy Water

Fiscal years ending June 30:

	Principal	Interest	Total
2024	\$ 80	2	82
2025	30	2	32
2026	29	1	30
	139	5	144
Less: Current portion	(80)		
Long-term portion as of June 30, 2023	\$ 59		

Hetchy Power

Fiscal years ending June 30:

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

Clean Power

Fiscal years ending June 30:

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

As of June 30, 2024 and 2023, no variable subscription payments were noted for Hetch Hetchy's subscription IT arrangements.

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

In 2007, the Board of Supervisors adopted the resolution to enter into two non-exclusive licenses with the Transbay Cable LLC (the Licensee) for the Transbay Cable Project. The Licensee proposed to install, operate, and maintain approximately 53 miles of high-voltage direct current transmission cable running from the City of Pittsburg to the City. The first license was a Construction License to install a 400 MW high-voltage transmission line, with a four-year term. The Licensee paid Hetchy Power \$3,500 in Renewable Energy, Transmission and Grid Reliability. The Construction licensing fees were fully spent as of 2020.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The second license is an operational license for operation of the transmission line with 25-year term and an option to renew for 10 years. The project came on line November 29, 2010 and cumulative revenues of \$22,708 were recorded. Per agreement, the SFPUC shall consider specifically renewable energy, conservation, and environmental health programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. The San Francisco Electricity Reliability Payment shall also be partly used for green jobs training and placement programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. As of June 30, 2024, cumulative expenses of \$14,577 have been incurred, with \$2,090 and \$1,351 in fiscal years 2024 and 2023, respectively.

(12) Employee Benefits

(a) *Pension Plan*

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

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

	Fiscal Year 2024	Fiscal Year 2023
Valuation Date (VD)	July 1, 2022 updated to June 30, 2023	July 1, 2021 updated to June 30, 2022
Measurement Date (MD)	June 30, 2023	June 30, 2022
Measurement Period (MP)	July 1, 2022 to June 30, 2023	July 1, 2021 to June 30, 2022

SFERS Plan – The City is an employer of the plan with a proportionate share of 94.85% as of June 30, 2023 (measurement date), 0.02% decreased from prior year, and 94.87% as of June 30, 2022 (measurement date). Hetch Hetchy's allocation percentage was determined based on its employer contributions divided by the City's total employer contributions for fiscal years 2023 and 2022. Hetch Hetchy's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense is based on its allocated percentage. Hetch Hetchy's allocation of the City's proportionate share was 1.33%, of which 0.55% for Hetchy Water, 0.68% for Hetchy Power, and 0.10% for CleanPowerSF as of June 30, 2023 (measurement date). Hetch Hetchy's allocation of the City's proportionate share was 1.31%, of which 0.55% for Hetchy Water, 0.68% for Hetchy Power, and 0.08% for CleanPowerSF as of June 30, 2022 (measurement date).

SFERS Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

on the Retirement System's website <https://mysfers.org> or by writing to the San Francisco Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

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

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

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

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

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Proposition A passed on November 8, 2022 making members who retired before November 6, 1996 (Pre96 Retirees) eligible for a Supplemental COLA, even if SFERS is not fully funded based on the market value of assets. Also, Pre96 Retirees' base retirement allowances were adjusted to account for Supplemental COLAs not received in 2013, 2014, 2017, 2018, and 2019 due to the full funding requirement. Effective with Proposition A, Pre96 Retirees receive the same Supplemental COLAs as the members who retired on or after November 6, 1996, and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Funding and Contribution Policy

SFERS Plan – Contributions are made by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 11.5% and 7.5% to 12.0% as a percentage of gross covered salary in fiscal years 2024 and 2023. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2022 actuarial report, the required employer contribution rates for fiscal year 2024 ranged from 15.24% to 18.24%. Based on the July 1, 2021 actuarial report, the required employer contribution rates for fiscal year 2023 ranged from 17.85% to 21.35%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2023 and 2022 (measurement years) was \$638,003 and \$729,578, respectively. Hetch Hetchy's allocation of employer contributions was \$8,364, of which \$3,525 for Hetchy Water, \$4,308 for Hetchy Power, and \$531 for CleanPowerSF for fiscal year 2023 (measurement period). Hetch Hetchy's allocation of employer contributions was \$9,766, of which \$4,149 for Hetchy Water, \$5,071 for Hetchy Power, and \$546 for CleanPowerSF for fiscal year 2022 (measurement period).

Pension Liabilities, Pension Expenses, and Deferred Outflows and Inflows of Resources Related to Pensions

Fiscal Year 2024

As of June 30, 2024, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan of \$3,456,687. The City's NPL for each of its cost-sharing plans is measured as a proportionate share of the plans' NPL. The net pension liability of the SFERS Plan is measured as of June 30, 2023 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022 rolled forward to June 30, 2023 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2024 was \$45,985, of which \$19,090 was for Hetchy Water, \$23,332 for Hetchy Power, and \$3,563 for CleanPowerSF.

For the year ended June 30, 2024, the City's recognized pension expense was \$659,719 including amortization of deferred outflows/inflows related pension items. Hetch Hetchy's allocation of pension expense including amortization of deferred outflows/inflows related pension items was \$8,008, of which \$3,230 for Hetchy Water, \$3,948 for Hetchy Power, and \$830 for CleanPowerSF. Pension expense increased from the prior year, largely due to the amortization of deferrals.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

At June 30, 2024, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Fiscal Year 2024								
Pension contributions subsequent to the measurement date	\$ 3,518	4,299	657	8,474	—	—	—	—
Differences between expected and actual experience	2,051	2,507	383	4,941	—	—	—	—
Changes in assumptions	2,470	3,021	461	5,952	1,127	1,378	210	2,715
Net difference between projected and actual earnings on pension plan investments	3,613	4,415	674	8,702	—	—	—	—
Change in employer's proportion	277	338	12	627	814	994	715	2,523
Total	\$ 11,929	14,580	2,187	28,696	1,941	2,372	925	5,238

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

Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2025	\$ (336)	(410)	(330)	(1,076)
2026	(1,374)	(1,680)	(422)	(3,476)
2027	7,151	8,740	1,225	17,116
2028	1,029	1,259	132	2,420
	<u>\$ 6,470</u>	<u>7,909</u>	<u>605</u>	<u>14,984</u>

Fiscal Year 2023

As of June 30, 2023, the City reported net pension liability (NPL) for its proportionate share of the net pension liability of the SFERS Plan of \$2,552,996. The City's NPL for each of its cost-sharing plans is measured as a proportionate share of the plans' NPL. The net pension liability of the SFERS Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the SFERS Plan used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021 rolled forward to June 30, 2022 using standard update procedures. The City's proportion of the net pension liability for the SFERS Plan was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the SFERS Plan as of June 30, 2023 was \$33,468, of which \$14,105 for Hetchy Water, \$17,239 for Hetchy Power, and \$2,124 for CleanPowerSF.

For the year ended June 30, 2023, the City's recognized pension benefit was \$13,196 including amortization of deferred outflows/inflows related pension items. Hetch Hetchy's allocation of pension benefit including amortization of deferred outflows/inflows related pension items was \$2,192, of which \$955 for Hetchy Water, \$1,168 for Hetchy Power, and \$69 for CleanPowerSF. Pension benefit increased from the prior year, largely due to the amortization of deferrals.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2024

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for SFERS Plan as of June 30, 2023 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2022 actuarial valuation. Refer to the July 1, 2022 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <https://mysfers.org>.

<u>Key Actuarial Assumptions</u>		<u>SFERS Plan</u>			
Valuation Date		July 1, 2022 updated to June 30, 2023			
Measurement Date		June 30, 2023			
Actuarial Cost Method		Entry-Age Normal Cost			
Expected Rate of Return		7.20% net of investment expenses			
Municipal Bond Yield		3.65% as of June 30, 2023			
		3.54% as of June 30, 2022			
		Bond Buyer 20-Bond GO Index, June 30, 2022 and June 29, 2023			
Inflation		2.50%			
Projected Salary Increases		3.25% plus merit component based employee classification and years of service			
Discount Rate		7.20% as of June 30, 2023			
		7.20% as of June 30, 2022			
Administrative Expenses		0.60% of payroll as of June 30, 2023			
		0.60% of payroll as of June 30, 2022			
Basic COLA		Old Miscellaneous and	Old Police & Fire,	Old Police & Fire,	Old Police & Fire,
		All New Plans	pre 7/1/75	Charters A8.595	Charters A8.559
				and A8.596	and A8.585
	June 30, 2023	2.00%	1.90%	2.50%	3.60%
	June 30, 2022	2.00%	1.90%	2.50%	3.60%

Changes of Assumptions SFERS plan – There were no changes in the discount rate for the measurement period ended June 30, 2023. The municipal bond yield increased from 3.54% to 3.65%.

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

The actuarial assumptions used at the June 30, 2023 measurement date were based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2022.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2023

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

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

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

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

Discount Rate

Fiscal Year 2024

SFERS Plan – The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.20% as of June 30, 2023 and June 30, 2022 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2023 was 7.20%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2022 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. However, the change due to Proposition A was amortized over 10 years. In the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted effective July 1, 2013 was amortized over 17 years. For the July 1, 2021 valuation, all amortization periods for actuarial gains and losses and prior assumption changes were reduced to 5 years. The assumption change effective July 1, 2021 is amortized over 20 years. Future experience gains and losses and assumption or method changes on or after July 1, 2021 are amortized over 20 years. If the plan becomes 100% funded based on the actuarial value of assets, any new net surpluses are amortized over a rolling 20-year period. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who were hired before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who were hired after Proposition C passed, the market value of assets must also exceed the actuarial liability for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. Most members receive a 1.50% Supplemental COLA when a full Supplemental COLA is granted.

No Supplemental COLA was payable as of July 1, 2023 due to the unfavorable investment return for fiscal year 2023. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

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

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members through 2104. Projected benefit payments are discounted at the long-term expected return on assets of 7.20% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.65% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2023 is 7.20%.

The long-term expected rate of return on pension plan investments was 7.20%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	37.0 %	4.6 %
Private Equity	23.0	7.8
Private Credit	10.0	5.8
Real Assets	10.0	5.3
Absolute Return	10.0	4.4
Treasuries	8.0	1.7
Liquid Credit	5.0	3.5
Leverage	(3.0)	1.4
Total	<u>100.0</u>	

Fiscal Year 2023

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

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

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

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 1997 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

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

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

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

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

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

Fiscal Year 2024		Hetchy	Hetchy	CleanPowerSF	Total
		Water	Power		
1% Decrease Share of NPL @ 6.20%	\$	44,775	54,725	8,357	107,857
Share of NPL @ 7.20%		19,090	23,332	3,563	45,985
1% Increase Share of NPA @ 8.20%		(2,088)	(2,552)	(390)	(5,030)

Fiscal Year 2023		Hetchy	Hetchy	CleanPowerSF	Total
		Water	Power		
1% Decrease Share of NPL @ 6.20%	\$	38,624	47,207	5,817	91,648
Share of NPL @ 7.20%		14,105	17,239	2,124	33,468
1% Increase Share of NPA @ 8.20%		(6,108)	(7,466)	(920)	(14,494)

(b) *Other Postemployment Benefits*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

San Francisco Health Service System Retiree Plan - Single-Employer		
	Fiscal Year 2024	Fiscal Year 2023
Valuation Date (VD)	June 30, 2022 updated to June 30, 2023	June 30, 2022
Measurement Date (MD)	June 30, 2023	June 30, 2022
Measurement Period (MP)	July 1, 2022 to June 30, 2023	July 1, 2021 to June 30, 2022

Hetch Hetchy's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the years ended June 30, 2023 and June 30, 2022. Hetch Hetchy's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on its allocated percentage. Hetch Hetchy's proportionate share of the City's OPEB elements was 1.03%, of which 0.41% for Hetchy Water, 0.51% for Hetchy Power, and 0.11% for CleanPowerSF as of June 30, 2023 (measurement date). Hetch Hetchy's proportionate share of the City's OPEB elements was 0.98%, of which 0.40% for Hetchy Water, 0.47% for Hetchy Power, and 0.11% for CleanPowerSF as of June 30, 2022 (measurement date).

Benefits

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

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

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

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

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

Medical: PPO – Blue Shield (self-insured) and UHC Medicare Advantage (fully-insured)
HMO – Kaiser (fully-insured) and Blue Shield (flex-funded) and Health Net (flex-funded)
Dental: Delta Dental, DeltaCare USA, and United Healthcare Dental
Vision: Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Contributions

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

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

Fiscal Year 2024

For the fiscal year ended June 30, 2024, the City’s funding was based on “pay as you go” plus a contribution of \$48,779 to the Retiree Healthcare Trust Fund. The “pay as you go” portion paid by the City was \$229,922 for a total contribution of \$278,701 for the fiscal year ended June 30, 2024. Hetch Hetchy’s proportionate share of the City’s contributions for fiscal year 2024 were \$2,864: \$1,155 for Hetchy Water, \$1,412 for Hetchy Power, and \$297 for CleanPowerSF and will be recognized as a reduction of the net OPEB liability in the reporting year ending June 30, 2025.

Fiscal Year 2023

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

Fiscal Year 2024

As of June 30, 2024, the City reported net OPEB liability related to the Plan of \$3,924,832. Hetch Hetchy's proportionate share of the City's net OPEB liability as of June 30, 2024 was \$40,341: \$16,269 for Hetchy Water, \$19,883 for Hetchy Power, and \$4,189 for CleanPowerSF. For the year ended June 30, 2024, the City's recognized OPEB expense was \$261,158. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's OPEB expense/(income) was \$5,204: \$2,390 for Hetchy Water and \$2,922 for Hetchy Power, and \$(108) for CleanPowerSF.

As of June 30, 2024, Hetch Hetchy reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	\$ 1,155	1,412	297	2,864	—	—	—	—
Differences between expected and actual experience	699	854	180	1,733	1,886	2,305	486	4,677
Changes in assumptions	473	578	122	1,173	—	—	—	—
Net difference between projected and actual earnings on plan investments	125	152	32	309	—	—	—	—
Change in proportion	739	903	365	2,007	1,011	1,236	1,806	4,053
Total	\$ 3,191	3,899	996	8,086	2,897	3,541	2,292	8,730

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

Deferred Outflows/(Inflows) of Resources				
Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2025	\$ (238)	(292)	(571)	(1,101)
2026	(79)	(96)	(456)	(631)
2027	(170)	(209)	(355)	(734)
2028	(362)	(443)	(244)	(1,049)
2029	(12)	(14)	33	7
Total	\$ (861)	(1,054)	(1,593)	(3,508)

Fiscal Year 2023

As of June 30, 2023, the City reported net OPEB liability related to the Plan of \$3,746,270. Hetch Hetchy's proportionate share of the City's net OPEB liability as of June 30, 2023 was \$37,180: \$14,907 for Hetchy Water, \$18,220 for Hetchy Power, and \$4,053 for CleanPowerSF. For the year ended June 30, 2023, the City's recognized OPEB expense was \$256,974. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. Hetch Hetchy's proportionate share of the City's OPEB expense was \$7,804: \$2,078 for Hetchy Water and \$2,540 for Hetchy Power, and \$3,186 for CleanPowerSF.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

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

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

Deferred Outflows/(Inflows) of Resources				
Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2024	\$ (193)	(236)	(527)	(956)
2025	(189)	(231)	(526)	(946)
2026	(39)	(48)	(485)	(572)
2027	(130)	(159)	(384)	(673)
2028	(323)	(394)	(273)	(990)
Total	\$ (874)	(1,068)	(2,195)	(4,137)

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2024

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2023 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2022 updated to June 30, 2023
Measurement Date	June 30, 2023
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.24% trending down to ultimate rate of 3.94% in 2075 Medicare trend starts at 7.24% trending down to ultimate rate of 3.94% in 2075 10-County average trend starts at 5.00% trending down to ultimate rate of 3.94% in 2075 Vision and expenses trend remains a flat 3.0% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ended June 30, 2019.

Non-Annuityants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2023

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

Key Actuarial Assumptions

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

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what its allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate as of June 30, 2024 and June 30, 2023:

	Hetchy Water	Hetchy Power	CleanPowerSF	2024
1% Decrease	\$ 13,835	16,909	3,562	34,306
Healthcare Cost Trend Rate	16,269	19,883	4,189	40,341
1% Increase	19,288	23,574	4,966	47,828

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

Discount Rate**Fiscal Year 2024**

The discount rate used to measure the Total OPEB Liability as of June 30, 2023 was 7.00%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	25.0 %	6.1 %
U.S. Small Cap	2.0	6.7
Developed Market Equity (non-U.S.)	13.0	7.2
Emerging Market Equity	10.0	7.4
Credit		
Bank Loans	3.0	4.4
High Yield Bonds	3.0	4.7
Rate Securities		
Investment Grade Corporate Bonds	7.0	2.8
Short-term Treasury Inflation-Protected Securities (TIPS)	5.0	1.0
Private Markets		
Private Equity	10.0	8.4
Private Debt	5.0	6.4
Core Private Real Estate	5.0	3.9
Infrastructure (Core Private)	2.0	5.2
Risk Mitigating Strategies		
Global Macro	10.0	3.1
Total	100.0 %	

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

	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease 6.00%	\$ 19,040	23,272	4,903	47,215
Discount Rate 7.00%	16,269	19,883	4,189	40,341
1% Increase 8.00%	13,995	17,105	3,604	34,704

Fiscal Year 2023

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

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

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

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

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City's postemployment health care obligations. The report may be obtained on the City's website <https://www.sf.gov/annual-comprehensive-financial-reports-acfr>, by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(13) Related Parties

(a) *Hetch Hetchy*

Various common costs incurred by the SFPUC are allocated among Hetch Hetchy, Water, and Wastewater Enterprises. The allocations are based on the SFPUC management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. For the years ended June 30, 2024 and 2023, the SFPUC allocated \$28,789 or 23.1% and \$26,362 or 23.1%, respectively, in administrative costs including COVID-19 Project expenses, which is presented in the financial statements under various expense categories. These costs are then allocated to Hetchy Water, Hetchy Power, and CleanPowerSF in

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City's indirect cost allocation plan. Some City departments provide direct services such as engineering, purchasing, legal, data processing, telecommunication, and human resources to Hetch Hetchy and charge amounts designed to recover those departments' costs. These charges totaling approximately \$15,121 and \$16,368 for the years ended June 30, 2024 and 2023, respectively, have been included in services provided by other departments in the accompanying financial statements.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. Total payment under this agreement is \$6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2024, Hetch Hetchy's allocable shares of expenses and prepayment were \$16 and \$871, respectively, and as of June 30, 2023 were \$17 and \$887, respectively.

(b) *Hetchy Water*

For the years ended June 30, 2024 and 2023, the SFPUC allocated \$12,805 or 10.3%, and \$11,778 or 10.3%, respectively, in administrative costs including COVID-19 Project expense to Hetchy Water.

The Water Enterprise purchases water from Hetchy Water. Included in the operating revenues are the water assessment fees of \$46,266 and \$49,636 for the years ended June 30, 2024 and 2023, respectively. The water assessment fees represent a recovery to fund upcountry, water-related costs that are not otherwise funded through Hetchy water-related revenue or Water revenue bonds.

Hetchy Water received \$42 and \$20,000 for the years ended June 30, 2024 and 2023, respectively, from the Water Enterprise to fund upcountry projects.

(c) *Hetchy Power*

For the years ended June 30, 2024 and 2023, the SFPUC allocated \$10,297 or 8.3%, and \$9,452 or 8.3% respectively, in administrative costs including COVID-19 Project expense to Hetchy Power.

For the years ended June 30, 2024 and 2023, operating revenues in sales of power to departments within the City were \$125,197 and \$121,046, respectively.

The Water Enterprise also purchases electricity and gas from Hetchy Power. This amount totaled \$10,256 and \$11,398 for the years ended June 30, 2024 and 2023, respectively.

The Wastewater Enterprise purchases electricity and gas from Hetchy Power. This amount totaled \$12,377 and \$14,876 for the years ended June 30, 2024 and 2023, respectively.

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

fuel suppliers can achieve this goal by either reducing the carbon intensity of their fuels or purchasing LCFS credits from other fuel suppliers that have a lower carbon intensity. In 2017, the San Francisco Municipal Transportation Agency (SFMTA) joined the LCFS program, signing up its transit fleet of electric buses, cable cars, and light rail vehicles and generating LCFS credits. Through a Memorandum of Understanding (MOU) with SFMTA, approved by the SFPUC Commission in Resolution 17-0199, net proceeds from the sale of LCFS credits would be shared 50/50 between SFMTA and Hetchy Power. In Ordinance 0199-19, the Board of Supervisors authorized Hetchy Power to establish the Low Carbon Fuel Standard Fund to account for the revenue and expenditure from the credit sales. The Ordinance also allowed Hetchy Power to sell LCFS credits on behalf of other City agencies which includes Port of San Francisco (Port) and San Francisco International Airport (SFO). Revenue allocations and fees are based on agreements with the departments. LCFS revenue is reported as other non-operating revenues on the Statements of Revenues, Expenses, and Change in Net Position.

During the fiscal year ended June 30, 2024, Hetchy Power received total payments of LCFS credits of \$1,838, of which \$1,154 was transferred to other City departments (\$684 for SFMTA, \$372 for Port, and \$98 for SFO). The remaining portion was reported as other non-operating revenues on the Statements of Revenues, Expenses, and Change in Net Position.

During the fiscal year ended June 30, 2023, Hetchy Power received total payments of LCFS credits attributable to SFMTA of \$1,123, of which \$561 was transferred to SFMTA and the remaining portion was reported as other non-operating revenues on the Statements of Revenues, Expenses, and Change in Net Position. In fiscal year 2023, municipal customers entering into an LCFS Partnership Agreement will pay for premium charges. The Port started earning its own LCFS credits on January 1, 2022, through the provision of shoreside power to docked ships. Hetchy Power has subsequently started selling the Port's LCFS credits in fiscal year 2023 and recognized \$32 revenues from credit sales. Total of \$210 was transferred to Port for fiscal year 2023.

Due from other City departments was \$11,421 and \$11,486 as of June 30, 2024 and 2023, respectively. Hetchy Power serves as the City's department for energy efficiency projects and maintains the Sustainable Energy Account (SEA) (formerly known as the Mayor's Energy Conservation Account) fund to sponsor and financially support such projects at various City departments. In this role, Hetchy Power may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2024 and 2023, projects completed throughout the City amounted to \$3,037 and \$3,544, respectively and are recorded as due from other City Departments.

Hetch Hetchy funded a project for the Treasure Island Development Authority and recorded receivables in connection with an upgraded submarine power cable, and gas and electrical charges for the Treasure Island as due from other City departments. This amount totaled \$7,041 and \$7,177 for the years ended June 30, 2024 and 2023, respectively.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

As of June 30, 2024 and 2023, Hetchy Power recorded receivables of \$405 and \$518, respectively, due from Wastewater Enterprise for its share of costs relating to SFPUC Headquarters Living Machine System. As of June 30, 2024, Hetchy Power recorded receivable of \$754 from General Fund related to utility user taxes refund. Details of due from other City departments are as follows:

	<u>2024</u>	<u>2023</u>
Treasure Island Development Authority	\$ 7,041	7,177
SEA-related project: Moscone Center	3,037	3,544
General Fund	754	—
Wastewater - 525 Golden Gate Headquarters Project	405	518
San Francisco Recreation and Park	105	209
Department of Public Works	79	38
Total due from other City departments	<u>11,421</u>	<u>11,486</u>
Less: current portion	<u>(1,558)</u>	<u>(1,134)</u>
Long-term portion as of June 30, net	<u>\$ 9,863</u>	<u>10,352</u>

As of June 30, 2023, Hetchy Power had payables in the amount of \$1,946 for claim settlement reimbursement to SFMTA. The amount was fully paid and Hetchy Power had no payable balance as of June 30, 2024.

(d) *CleanPowerSF*

For the years ended June 30, 2024 and 2023, the SFPUC allocated \$5,687 or 4.5%, and \$5,132 or 4.5%, respectively, in administrative costs to CleanPowerSF.

As of June 30, 2024, and 2023, operating revenue in sales of power to Hetchy Power were \$1,421 and \$1,549, respectively. Operating expenses in purchase of power from Hetchy Power were \$13,521 and \$5,846, respectively. Wholesale sales of energy, capacity and/or other electric power related products may be made between the CleanPowerSF and Hetchy Power, when available. CleanPowerSF and Hetchy Power transact for such products at prevailing market prices.

CleanPowerSF received program support services from Hetchy Power. This amount totaled \$2,841 and \$2,850 for the years ended June 30, 2024 and 2023, respectively.

(14) Risk Management

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

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

(a) *General Liability*

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

The changes for the general liability (damage claims) for the years ended June 30, 2024, 2023, and 2022 are as follows:

Fiscal years	Beginning of year	Claims paid and changes in estimates	Claims paid	End of year
Hetch Hetchy				
2024	\$ 6,884	10,284	(13,105)	4,063
2023	1,682	12,497	(7,295)	6,884
2022	1,639	3,840	(3,797)	1,682
Hetchy Water				
2024	\$ 700	96	(528)	268
2023	627	320	(247)	700
2022	525	253	(151)	627
Hetchy Power				
2024	\$ 6,150	9,273	(11,649)	3,774
2023	1,023	10,439	(5,312)	6,150
2022	1,108	2,005	(2,090)	1,023
CleanPowerSF				
2024	\$ 34	915	(928)	21
2023	32	1,738	(1,736)	34
2022	6	1,582	(1,556)	32

(b) *Workers' Compensation*

The City actuarially determines and allocates workers' compensation costs to the Enterprise according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the Enterprise's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in budgetary savings in recent years. The City

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate the growth of workers' compensation costs. Programs include accident prevention, investigation, and duty modification for injured employees with medical restrictions so return to work can occur as soon as possible.

The changes for the workers' compensation liabilities for the years ended June 30, 2024, 2023, and 2022 are as follows:

<u>Fiscal years</u>	<u>Beginning of year</u>	<u>Claims</u>	<u>Claims and changes in estimates</u>	<u>End of year</u>
Hetch Hetchy				
2024	\$ 3,457	1,000	(824)	3,633
2023	3,478	300	(321)	3,457
2022	3,238	555	(315)	3,478
Hetchy Water				
2024	\$ 1,219	337	(259)	1,297
2023	1,228	76	(85)	1,219
2022	1,120	233	(125)	1,228
Hetchy Power				
2024	\$ 2,238	663	(565)	2,336
2023	2,250	224	(236)	2,238
2022	2,118	322	(190)	2,250

*CleanPowerSF had no workers' compensation liabilities as of June 30, 2024 and 2023.

(c) *Property*

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

(d) *Public Officials Liability*

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

(e) *Employment Practices Liability*

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

(f) *Cyber Liability*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(g) ***Crime***

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

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

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

(i) ***Surety Bonds***

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

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

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(15) Commitments and Litigation

(a) *Commitments*

As of June 30, 2024 and 2023, Hetch Hetchy had outstanding commitments with third parties of \$154,975 and \$136,322, respectively, for various purchase agreements. Of this, Hetch Hetchy had capital commitments of \$65,261 and \$99,568 as of June 30, 2024 and 2023, respectively.

Hetchy Water

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto Irrigation District (MID) and Turlock Irrigation District (TID) in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetchy Water's operating expenses. The payment amounts were \$5,714 and \$5,329 for fiscal years 2024 and 2023, respectively. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of \$1,400 is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52%, while the Districts are responsible for 48% of the costs.

Hetchy Power

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

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

Staff prepare regular reporting to the Board of Supervisors outlining on-going disputes with PG&E over project requirements, costs and delays. During fiscal years 2024 and 2023, Hetchy Power purchased distribution services for \$27,932 and \$29,008, respectively, from PG&E under the terms of the Service Agreements and Interconnection Agreements that implement the WDT. The City continues to litigate and dispute these terms at FERC and in the court systems; and pursue the purchase of PG&E's electric grid in San Francisco.

Western System Power Pool and other Market Purchases and Sales

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal years 2024 and 2023, Hetchy Power purchased \$11,945 and \$3,676 of power and other related products, respectively. Sales of excess power, after meeting Hetchy Hetchy's obligations, were \$6,532 or 149,000 MWh for fiscal year 2024 and \$1,157 or 155,000 MWh for fiscal year 2023, respectively.

Power Purchase Agreement (PPA)

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

The PPA sets the starting purchase price of generated energy at \$235/MWh, increasing by 3% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year on average. Rates for fiscal years ended June 30, 2024 and 2023 were \$354/MWh and \$344/MWh, respectively. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2024 and 2023, purchases of energy under the Agreement were \$2,184, or 6,269 MWh, and \$2,037, or 6,006 MWh, respectively.

APX, Inc

Hetchy Power and CleanPowerSF participate in the CAISO energy markets which requires the SFPUC to have a contract with a certified Scheduling Coordinator (SC). In June 2022, CleanPowerSF renewed a 5-year contract with APX, Inc with contract amount not to exceed \$134,743 to fulfill this requirement. APX, Inc provides a number of services including but not limited to an interface with the CAISO's energy scheduling portal, manage invoice payments to the CAISO and communications between the CAISO and the SFPUC, and dispatch of the Hetchy Hetchy plant 24 hours a day, seven days a week. The contract also provides that APX, Inc will act as the SC for renewable generation plants under some of CleanPowerSF's Power Purchase Agreements. Hetchy Power's share was \$456 and \$471 as of June 30, 2024 and 2023, respectively. CleanPowerSF's share was \$264 and \$226 as of June 30, 2024 and 2023, respectively.

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

CleanPowerSF

CleanPowerSF regularly adds new short-term and medium-term contracts with multiple counterparties pursuant to master agreements, including the WSPP Master Agreement, to

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

purchase renewable, carbon-free and conventional energy and resource adequacy capacity. CleanPowerSF has also entered into long-term contracts for renewable energy and capacity with renewable energy developers including sPower, Terra-Gen, NextEra, Intersect Power and EDF Renewables. These contracts have been entered to allow CleanPowerSF to meet its existing retail sales obligations, to support future retail sales from anticipated load growth, and to comply with State requirement that 65% of CleanPowerSF's Renewables Portfolio Standard (RPS) compliance targets be fulfilled by RPS-eligible electricity from contracts of 10 or more years. Citywide enrollment was completed in 2020. Since it began serving customers in 2016, CleanPowerSF's cumulative opt-out rate is 4.6% of all enrolled accounts. The total power purchase cost, net of wholesale sales, were \$270,340 and \$259,532 in fiscal years 2024 and 2023, respectively.

CleanPowerSF contracts with Calpine Energy Solutions to provide meter data management, billing and customer care support. Calpine is responsible for calculating and providing CleanPowerSF charges to PG&E, which in turn bills both CleanPowerSF and PG&E customers for electricity transmission, distribution, and CleanPowerSF generation services. PG&E remits payments received from customers for CleanPowerSF charges to the City. During fiscal years 2024 and 2023, amounts paid were \$4,742 and \$4,679, respectively.

CleanPowerSF Guarantee

In March 2018, CleanPowerSF entered into a five-year, \$75,000 Credit Agreement with JPMorgan Chase Bank, National Association ("Bank") to provide letters of credit or loans from the Bank to guarantee certain power purchase agreement payment obligations of CleanPowerSF and to meet working capital needs, if necessary. In November 2021 the Credit Agreement decreased (at the request of CleanPowerSF) the available amount from \$75,000 to \$20,000, and the stated term of the agreement was extended to March 2024. Additional changes to the agreement effected by the November 2021 Amendments include elimination of target reserve requirements, revisions to debt service coverage (allowing for a liquidity test two times in the aggregate for any consecutive four quarters) and rate-setting covenants, changes to ongoing reporting requirements to the Bank, and changes to events of default, including the addition of an event of default if CleanPowerSF's long-term unenhanced credit rating is downgraded below investment grade or suspended, withdrawn or otherwise unavailable. In May 2022 CleanPowerSF executed another amendment to its Credit Agreement to eliminate and change certain financial covenants contained in the 2018 Credit Agreement. Specifically, this Amendment eliminated the covenant of the Commission to maintain a specified debt service coverage ratio and changed such financial covenant to commit the Commission to maintain a specified level of Day Liquidity on Hand (as defined in the Credit Agreement). In March 2024 CleanPowerSF executed a fourth amendment to the Credit Agreement increasing the available amount from \$20,000 to \$75,000 and extended the agreement end date from March 2024 to March 2027. The Credit Agreement is secured by CleanPowerSF's net revenues; there is no pledge of, or lien on net revenues that ranks senior to the obligations under the Credit Agreement. The Bank issued letters of credit in the face amounts totaling \$6,183 for fiscal years ended June 30, 2024 and 2023, respectively. CleanPowerSF did not draw on the Credit Agreement during fiscal years 2024 and 2023. Accordingly, the uncommitted credit capacity under the Credit Agreement was \$68,817 and \$13,817 during fiscal years 2024 and 2023, respectively.

Original financial covenants include that CleanPowerSF maintain a Debt Service Coverage Ratio as defined in the Credit Agreement of not less than 1.05 for each fiscal quarter, as determined for the four consecutive fiscal quarter periods ended on the last day of such fiscal quarter.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

CleanPowerSF was in compliance with all covenants and requirements of the Credit Agreement as amended for fiscal years ended June 30, 2024 and 2023.

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

Green Tariff and Community Solar Green Tariff Programs for Disadvantaged Communities

In June 2018, the CPUC established the Disadvantaged Communities-Green Tariff (DAC-GT) program and Community Solar Green Tariff (CSGT) program to address barriers to solar adoption faced by low-income electric customers in neglected communities. The DAC-GT program provides a 20% bill discount on 100% RPS eligible electricity service to income-qualified customers residing in Disadvantaged Communities (DACs) as defined by the California Environmental Protection Agency's (Cal EPA) Office of Environmental Health Hazard Assessment (OEHHA). Similar to DAC-GT, the CSGT program provided a 20% bill discount to qualifying customers in DACs to benefit from the development of solar generation projects located in their own or nearby DACs.

The CPUC approved CleanPowerSF's application to establish DAC-GT and CSGT programs in April 2021 and to receive funds to cover program administration and a portion of electricity supply costs. CleanPowerSF began enrolling customers in the DAC-GT program branded as "SuperGreen Saver" on June 1, 2022. The CSGT program was expected to start serving customers during fiscal year 2026, but the CPUC discontinued the program. As of June 30, 2024 and 2023, CleanPowerSF received \$98 and \$868, respectively, from a combination of ratepayer funds and California Cap and Trade Auction proceeds.

(b) *Litigation*

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

(c) *Grants*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2024 and 2023

(Dollars in thousands, unless otherwise stated)

(16) Subsequent Event

Power Enterprise, Issuance of Commercial Paper Notes

On October 10, 2024, the SFPUC issued \$45,000 in Power Enterprise commercial paper notes to finance a portion of the design, acquisition, and construction of various capital projects in furtherance of the SFPUC's Power Enterprise capital improvement program. The commercial paper notes are expected to be refinanced with proceeds of Power's revenue bonds in fiscal year 2026, which is preliminary and subject to change.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in dark ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
November 12, 2024

Our mission

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



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

Cover photo: Moccasin Powerhouse
Generator Rehabilitation

Back cover photo: Paulsell Solar
Energy Center

Photos by: Robin Scheswohl

Date of Publication:
November 2024

SFPUC Financial Services
525 Golden Gate Avenue, 4th Floor
San Francisco, CA 94102-3220
sfpuc.gov

Follow Us @MySFPUC

Generating Clean Energy
for Vital Services.



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

Hetch Hetchy Water and Power and CleanPowerSF

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



HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Statements of Net Position	34
Statements of Revenues, Expenses, and Changes in Net Position	36
Statements of Cash Flows	37
Notes to Financial Statements	39
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	100

Independent Auditor's Report

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

Opinions

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

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

Basis for Opinions

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

Emphasis of Matters

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

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

Other Matter

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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

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

Macias Gini & O'Connell LLP

Walnut Creek, California
December 26, 2023

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

Organization and Business

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

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

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

Hetch Hetchy

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Hetchy Water

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

Hetchy Power

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

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

Hetch Hetchy Joint

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

CleanPowerSF

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Overview of the Financial Statements

Hetch Hetchy's financial statements include the following:

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

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

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

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

Financial Analysis

Financial Highlights for Fiscal Year 2023

Hetch Hetchy

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Hetchy Water

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

Hetchy Power

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

CleanPowerSF

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Financial Highlights for Fiscal Year 2022

Hetch Hetchy

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

Hetchy Water

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

Hetchy Power

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

CleanPowerSF

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Financial Position

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

*Restated per GASB Statement No. 96, SBITAs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

*Restated per GASB Statement No. 96, SBITAs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Table 1D - CleanPowerSF
Comparative Condensed Net Position
June 30, 2023, 2022, and 2021

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

*Restated per GASB Statement No. 96, SBITAs.

Net Position, Fiscal Year 2023

Hetch Hetchy

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Hetchy Water

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

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

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

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

Hetchy Power

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

CleanPowerSF

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

Net Position, Fiscal Year 2022

Hetch Hetchy

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

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

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

Hetchy Water

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

Hetchy Power

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

CleanPowerSF

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

Results of Operations

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022
(Dollars in thousands, unless otherwise stated)

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

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

*Restated per GASB Statement No. 96, SBITAs.

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

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

*Restated per GASB Statement No. 96, SBITAs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

*Restated per GASB Statement No. 96, SBITAs.

Result of Operations, Fiscal Year 2023

Hetch Hetchy

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

Hetchy Water

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

Hetchy Power

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

CleanPowerSF

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

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

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

Result of Operations, Fiscal Year 2022

Hetch Hetchy

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Hetchy Water

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

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

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

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

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

Hetchy Power

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

CleanPowerSF

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

Capital Assets

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

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

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

Capital Assets, Fiscal Year 2023

Hetch Hetchy

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

Hetchy Water

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Hetchy Power

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

CleanPowerSF

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

See Note 4 for additional information about capital assets.

Capital Assets, Fiscal Year 2022

Hetch Hetchy

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

Hetchy Water

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

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

Hetchy Power

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

CleanPowerSF

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

See Note 4 for additional information about capital assets.

Debt Administration

Hetch Hetchy

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

Hetchy Water

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

Hetchy Power

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

CleanPowerSF

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

Rates and Charges

Hetchy Water

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

Hetchy Power

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

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

Municipal Rates

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Retail Rates

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

CleanPowerSF

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

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

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

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

Request for Information

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2023 and 2022

(In thousands)

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

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

(Continued)

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2023 and 2022

(In thousands)

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

*Restated per GASB Statement No. 96, SBITAs.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2023 and 2022
(In thousands)

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

*Restated per GASB Statement No. 96, SBITAs.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

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

*Restated per GASB Statement No. 96, SBITAs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

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

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

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(1) Description of Reporting Entity

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

(2) Significant Accounting Policies

(a) *Basis of Accounting and Measurement Focus*

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

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

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

(b) *Cash and Cash Equivalents*

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

(c) *Investments*

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

(d) *Inventory*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(e) ***Capital Assets***

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

(f) ***Intangible Assets***

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

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

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

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

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

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

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

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

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

(k) ***General Liability***

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

(m) ***Income Taxes***

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

(n) ***Revenue Recognition***

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

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

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

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

(p) ***Eliminations***

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

(r) *Leases*

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWER SF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

(v) ***GASB Statements Implemented in Fiscal Year 2022***

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(w) *Future Implementation of New Accounting Standards*

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

(x) *Reclassifications*

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

(4) Capital Assets

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWER SF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(5) Restricted Assets

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

(6) Short-Term Debt

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

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

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

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

*Restated per GASB Statement No. 96, SBITAs.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

*Restated per GASB Statement No. 96, SBITAs.

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(a) *Clean Renewable Energy Bonds*

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

(b) *Qualified Energy Conservation Bonds*

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

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

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

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

(c) *New Clean Renewable Energy Bonds 2015*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Hetchy Power - Power Revenue Bonds 2015 Series B

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

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

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

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

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

Hetchy Power - Power Revenue Bonds 2021 Series B

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

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

(g) *Events of Default and Remedies*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

(8) Revenue Pledge

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(9) Leases

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Hetchy Water

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

Hetchy Power

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

Hetchy Water

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

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

Hetchy Power

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

CleanPowerSF

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

*Restated per GASB Statement No. 96, SBITAs.

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

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

*Restated per GASB Statement No. 96, SBITAs.

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

Hetchy Water

Fiscal years ending June 30:

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Hetchy Power

Fiscal years ending June 30:

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

Clean Power

Fiscal years ending June 30:

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

Hetchy Water

Fiscal years ending June 30:

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

Hetchy Power

Fiscal years ending June 30:

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

Clean Power

Fiscal years ending June 30:

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

(12) Employee Benefits

(a) *Pension Plan*

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWER SF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Funding and Contribution Policy

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

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

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

Fiscal Year 2023

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

Fiscal Year 2022

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2023

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements
June 30, 2023 and 2022
(Dollars in thousands, unless otherwise stated)

Fiscal Year 2022

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

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

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

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

Discount Rate

Fiscal Year 2023

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

Fiscal Year 2022

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

(b) *Other Post-Employment Benefits*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

Benefits

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

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

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

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

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

Medical: PPO – Blue Shield (self-insured) and UHC Medicare Advantage (fully-insured)
HMO – Kaiser (fully-insured) and Blue Shield (flex-funded) and Health Net (flex-funded)
Dental: Delta Dental, DeltaCare USA and United Healthcare Dental
Vision: Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Contributions

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

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

Fiscal Year 2023

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

Fiscal Year 2022

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

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

Fiscal Year 2023

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

Fiscal Year 2022

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Actuarial Assumptions

Fiscal Year 2023

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

Key Actuarial Assumptions

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

Non-Annuitants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

Fiscal Year 2022

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

Key Actuarial Assumptions

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

Non-Annuityants

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

Healthy Retirees

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

Disabled Retirees

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

Beneficiaries

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

Discount Rate**Fiscal Year 2023**

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

Fiscal Year 2022

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

(13) Related Parties

(a) *Hetch Hetchy*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

(b) *Hetchy Water*

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

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

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

(c) *Hetchy Power*

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

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

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

(d) *CleanPowerSF*

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

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

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

(14) Risk Management

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

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(a) *General Liability*

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

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

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

(b) *Workers' Compensation*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

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

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

(c) *Property*

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

(d) *Public Officials Liability*

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

(e) *Employment Practices Liability*

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

(f) *Cyber Liability*

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

(g) *Crime*

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

(h) *Electronic Data Processing*

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

(i) ***Surety Bonds***

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

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

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

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

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

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

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

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

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

(15) Commitments and Litigation

(a) ***Commitments***

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

Hetchy Water

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

HETCH HETCHY WATER AND POWER AND CLEANPOWERSEF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

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

Hetchy Power

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

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

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

Western System Power Pool and other Market Purchases and Sales

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

Power Purchase Agreement (PPA)

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a local solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year PPA with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

The PPA sets the starting purchase price of generated energy at \$235/MWh, increasing by 3% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2023, the facility generated 6,006 MWh and the rate was at \$344/MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2023 and 2022, purchases of energy under the Agreement were \$2,037, or 6,006 MWh, and \$2,225, or 6,460 MWh, respectively.

APX, Inc

Hetchy Power and CleanPowerSF participate in the CAISO energy markets which requires the SFPUC to have a contract with a certified Scheduling Coordinator (SC). In June 2022, CleanPowerSF renewed a 5-year contract with APX, Inc with contract amount not to exceed \$134,743 to fulfill this requirement. APX, Inc provides a number of services including but not limited to an interface with the CAISO's energy scheduling portal, manage invoice payments to the CAISO and communications between the CAISO and the SFPUC, and dispatch of the Hetch Hetchy plant 24 hours a day, seven days a week. The contract also provides that APX, Inc will act as the SC for renewable generation plants under some of CleanPowerSF's Power Purchase Agreements. Hetchy Power's share was \$471 and \$456 as of June 30, 2023 and 2022, respectively. CleanPowerSF's share was \$226 and \$192 as of June 30, 2023 and 2022.

On January 6, 2023, Amendment No. 1 was requested and approved to increase this contract by \$125,000, increasing the total contract to \$259,743, with no change to the agreement duration. On March 17, 2023, Amendment No. 2, was approved to increase the contract by \$636,000 for a total not to exceed contract amount of \$895,743, with no change to the agreement duration. The drivers for these Amendments were higher than anticipated power prices, due to extreme weather, draught conditions, and global energy shortages.

CleanPowerSF

CleanPowerSF regularly adds new short-term and medium-term contracts with multiple counterparties pursuant to master agreements, including the WSPP Master Agreement, to purchase renewable, carbon-free and conventional energy and resource adequacy capacity. CleanPowerSF has also entered into long-term contracts for renewable energy and capacity with renewable energy developers including sPower, Terra-Gen, NextEra, Intersect Power and EDF Renewables. These contracts have been entered to allow CleanPowerSF to meet its existing retail sales obligations, to support future retail sales from anticipated load growth, and to comply with State requirement that 65% of CleanPowerSF's Renewables Portfolio Standard (RPS) compliance targets be fulfilled by RPS-eligible electricity from contracts of 10 or more years. Citywide enrollment was completed in 2020. Since it began serving customers in 2016, CleanPowerSF's cumulative opt-out rate is 4.4% of all enrolled accounts. The total power purchase cost, net of wholesale sales, were \$259,532 and \$238,149 in fiscal years 2023 and 2022, respectively.

CleanPowerSF contracts with Calpine Energy Solutions to provide meter data management, billing and customer care support. Calpine is responsible for calculating and providing CleanPowerSF charges to PG&E, which in turn bills both CleanPowerSF and PG&E customers for

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

electricity transmission, distribution, and CleanPowerSF generation services. PG&E remits payments received from customers for CleanPowerSF charges to the City. During fiscal years 2023 and 2022, amounts paid were \$4,679 and \$4,730, respectively.

CleanPowerSF Power Purchase Agreement (PPA)

In November 2020, CleanPowerSF executed a Power and Storage Purchase Agreement to purchase solar product and storage product from a solar powered generation facility and battery storage facility located at Livermore pursuant to the 25-year PPA with IP Aramis, LLC (Seller). As of June 30, 2022, CleanPowerSF has cash collateral of \$9,000 for Development Assurance and Performance Assurance from the Seller. The \$9,000 cash collateral was returned to the seller as of June 30, 2023.

CleanPowerSF Guarantee

In March 2018, CleanPowerSF entered into a five-year, \$75,000 Credit Agreement with JPMorgan Chase Bank, National Association ("Bank") to provide letters of credit or loans from the Bank to guarantee certain power purchase agreement payment obligations of CleanPowerSF and to meet working capital needs, if necessary. In November 2021 the Credit Agreement was decreased (at the request of CleanPowerSF) the available amount from \$75,000 to \$20,000, and the stated term of the agreement was extended to March 2024. Additional changes to the agreement effected by the November 2021 Amendments include elimination of target reserve requirements, revisions to debt service coverage (allowing for a liquidity test two times in the aggregate for any consecutive four quarters) and rate-setting covenants, changes to ongoing reporting requirements to the Bank, and changes to events of default, including the addition of an event of default if CleanPowerSF's long-term unenhanced credit rating is downgraded below investment grade or suspended, withdrawn or otherwise unavailable. In May 2022 CleanPowerSF executed another amendment to its Credit Agreement to eliminate and change certain financial covenants contained in the 2018 Credit Agreement. Specifically, this Amendment eliminated the covenant of the Commission to maintain a specified debt service coverage ratio and changed such financial covenant to commit the Commission to maintain a specified level of Day Liquidity on Hand (as defined in the Credit Agreement). The Credit Agreement is secured by CleanPowerSF's net revenues; there is no pledge of, or lien on net revenues that ranks senior to the obligations under the Credit Agreement. The Bank issued letters of credit in the face amounts totaling \$6,183 and \$5,847 for fiscal years ending June 30, 2023 and 2022, respectively. CleanPowerSF did not draw on the Credit Agreement during fiscal years 2023 and 2022. Accordingly, the uncommitted credit capacity under the Credit Agreement was \$13,817 and \$14,153 during fiscal years 2023 and 2022, respectively.

Original financial covenants include that CleanPowerSF maintain a Debt Service Coverage Ratio as defined in the Credit Agreement of not less than 1.05 for each fiscal quarter, as determined for the four consecutive fiscal quarter periods ended on the last day of such fiscal quarter. As of June 30, 2021, CleanPowerSF was not in compliance with this financial covenant as calculated for the four consecutive fiscal quarters ended on such date, resulting in a covenant event of default under the Credit Agreement. In connection with subsequent amendments to the Credit Agreement, JPMorgan Chase granted a waiver of such event of default for the period ended June 30, 2021. CleanPowerSF was in compliance with other covenants and requirements of the Credit Agreement as of June 30, 2021. CleanPowerSF was in compliance with all covenants and requirements of the Credit Agreement as amended as of June 30, 2023 and 2022.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands, unless otherwise stated)

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, requires the disclosure of certain information related to debt, including unused letters of credit. Significant events of default under the Credit Agreement, include 1) non-payment, 2) material breach of warranty, representation, or other non-remedied breach of covenants as specified in the agreement and 3) bankruptcy and insolvency events, which could result in all outstanding loans under the Credit Agreement to be immediately due and payable; or the immediate termination of the Bank's commitment to issue letters of credit or make loans under the Credit Agreement.

Green Tariff and Community Solar Green Tariff Programs for Disadvantaged Communities

In June 2018, the CPUC established the Disadvantaged Communities-Green Tariff (DAC-GT) and Community Solar Green Tariff (CSGT) program to address barriers to solar adoption faced by low-income electric customers in neglected communities. The DAC-GT program provides a 20% rate discount on 100% RPS eligible electricity service to income-qualified customers residing in Disadvantaged Communities (DACs) as defined by the California Environmental Protection Agency's (Cal EPA). Similar to DAC-GT, the CSGT program allows primarily for the DACs to benefit from the development of solar generation projects located in their own or nearby DACs. CSGT projects must also have a local community-based sponsor that supports site selection and customer enrollment.

The CPUC approved CleanPowerSF's application to establish DAC-GT and CSGT programs in April 2021 and to receive funds to cover program administration and a portion of electricity supply costs. CleanPowerSF began enrolling customers in the DAC-GT program branded as "SuperGreen Saver" on June 1, 2022. The CSGT program is expected to start serving customers during fiscal year 2026, once CleanPowerSF is able to procure electricity from a CSGT-eligible solar project(s). As of June 30, 2023 and 2022, CleanPowerSF received \$868 and \$1,150, respectively, from a combination of ratepayer funds and California Cap and Trade Auction proceeds.

(b) *Litigation*

Hetch Hetchy is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of Hetch Hetchy.

(c) *Grants*

Grants that the Enterprise received are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(16) Subsequent Event

Power Revenue Bonds, 2023 Series A Issuance

In October 2023, the SFPUC issued its San Francisco Power Revenue Bonds, 2023 Series A with a principal of \$123,905 to finance or refinance Power Enterprise projects through the refunding and retirement of commercial paper issued as interim financing for such projects in furtherance of the Power Capital Improvement Program.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

Honorable Mayor and the Board of Supervisors
City and County of San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hetch Hetchy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hetch Hetchy's internal control. Accordingly, we do not express an opinion on the effectiveness of Hetch Hetchy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hetch Hetchy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
December 26, 2023



San Francisco Public Utilities Commission
An Enterprise Department of the City and
County of San Francisco, California

Cover photo: Moccasin Powerhouse
Generator Step-Up Transformer
Installation, Moccasin Reservoir,
powerhouse and penstocks

Back cover photo: Electric vehicle
(EV) charging stations, San
Antonio Reservoir. Power Lines.
Transmission Line

Photos by: Sabrina Wong,
Robin Scheswohl, Katherine DuTiel

Date of Publication: December 2023

Our mission

To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.

SFPUC Financial Services
525 Golden Gate Avenue, 4th Floor
San Francisco, CA 94102-3220
sfpuc.org



Follow Us @MySFPUC