

CleanPowerSF

Business Practice Policies

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1. Product Content Policy

Renewable Content

All entities that provide electric power to end-use consumers in the state are required to comply with the California Renewable Portfolio Standard (RPS). The RPS establishes the minimum amount of renewable generation a load serving entity must utilize to serve its retail customers, the renewable technologies eligible for compliance to meet that minimum, and the relative amounts of the bundled and unbundled renewable products that may be used. The RPS was established in 2002 under Senate Bill 1078, accelerated in 2006 under Senate Bill 107 and expanded in 2011 under Senate Bill 2 and in 2015 under Senate Bill 350 (Public Utilities Code § 399.11-32). The RPS mandates that 33% of electricity sold to consumers must be generated by eligible renewable resources by 2020 and 50% by 2030.

By a vote of the people, San Francisco established City policy "... that the use of unbundled renewable energy credits for CleanPowerSF customers shall be limited to the extent deemed feasible by the SFPUC.... For renewable energy provided by CleanPowerSF that exceeds the minimum requirements of state law, the voters urge the SFPUC to apply the same limitations on the use of unbundled renewable energy credits, to the extent feasible." (San Francisco Environment Code § 2102(b), Proposition H, 2015.)

In directing the SFPUC to begin development of San Francisco's Community Choice Aggregation program, the Board of Supervisors found that through such a program "...the City could have additional means of increasing the scale and cost-effectiveness of conservation, energy efficiency and renewable energy ...(and) a means of exercising local control over electricity prices, resources and quality of service, and designing local energy systems to protect against future blackouts and rate shocks." (Ord. 86-04)

The SFPUC has developed the CleanPowerSF program to balance the sometimes competing objectives laid out by the Board of Supervisors – affordable, cleaner energy, including local generation and efficiency, while providing for long-term rate and financial stability. To achieve that balance, it is the policy of the SFPUC that the CleanPowerSF program shall offer two retail electricity products at launch: 1) a default "Green" product, with an initial target of 33% to 50% renewable energy content; and 2) a voluntary "SuperGreen" product, with 100% renewable energy content.

The renewable energy content goal of the Green product will be 35% renewable energy content when the program launches in 2016, increasing to at least 50% renewable energy content by the end of 2020. The Green product will at all times be no less than 33% renewable or the minimum statewide RPS target in effect at the time, whichever is greater.

CleanPowerSF will exceed the Green product renewable content commitments when it is cost-

effective as market conditions allow while balancing affordability, financial and rate stability, and local project objectives.

It is the policy of the SFPUC that CleanPowerSF purchase renewable energy from projects located within the nine Bay Area Counties (San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Solano, Napa, Sonoma and Marin), to the extent cost-effective and as market conditions allow.

The SFPUC shall implement the policy of the City that the use of unbundled renewable energy credits for CleanPowerSF be limited to the extent feasible, consistent with the goals of the program. For purposes of satisfying its renewable energy content objectives, at program launch CleanPowerSF will rely on Product Content Category 1 renewable resources, to the extent economically and financially feasible.

CleanPowerSF will follow the limitations of local and state law regarding the use of unbundled renewable energy credits to satisfy the applicable renewable portfolio standard. For renewable energy provided by CleanPowerSF that exceeds the minimum requirements of state law, the SFPUC will apply the same limitations on the use of unbundled renewable energy credits, to the extent feasible.

Carbon Content

In 2002, the Board of Supervisors passed the “Greenhouse Gas Emissions Reduction” Resolution (158-02), updated in 2008 (Ordinance 81-08, San Francisco Environment Code § 902), committing San Francisco to reduce citywide GHG emissions on a stepped-down schedule to 80% below 1990 levels by the year 2050. Implementing efforts recognize San Francisco’s Community Choice Aggregation program as a key contributor to achieving those goals.

Consistent with City policy and SFPUC Resolution 11-0035, a principal objective of the CleanPowerSF program is to facilitate the City’s shift to a greenhouse gas free electric energy supply. Toward these ends and to the extent economically and financially feasible, CleanPowerSF’s energy portfolio carbon content shall be lower than the levels of carbon in Pacific Gas and Electric Company’s electricity resource portfolio. Consistent with City policy and as economically and operationally feasible, CleanPowerSF will endeavor to reduce the total carbon content in its electricity resource portfolio over time with a goal of providing a carbon free electricity service no later than 2030.

For purposes of firming and shaping the electricity portfolio used to serve customers, CleanPowerSF will not utilize specified purchases of coal or nuclear energy. Additionally, consistent with SFPUC Resolution No. 20-0153, CleanPowerSF will not make specified purchases of system energy from Asset Controlling Suppliers that include nuclear in their supply mix to meet CleanPowerSF’s greenhouse-gas emissions reductions goals.

2. Rate Setting Policy

As established in Ordinance 146-07, management and control of the CleanPowerSF program is being undertaken by the SFPUC pursuant to its responsibilities and authority under the Charter. As such, CleanPowerSF rates are set by the SFPUC Commission (Commission) pursuant to the authority and provisions set forth by the Charter (Section 8B.125). Among other things, the Charter requires the SFPUC to set rates, after one or more public hearings, based on the cost of service, and at levels sufficient to provide sufficient resources for the continued financial health (including appropriate reserves), operation, maintenance and repair of each enterprise.

SFPUC staff has estimated the cost to provide CleanPowerSF service, and conducted a risk assessment that identified and quantified potential variations in cost and revenue resulting from changes in key program assumptions. This effort demonstrates the viability of the program to meet program objectives, and forms the basis for the Commission to set rates for the initial program launch.

The Commission will adopt budgets and establish cost-based retail rates for CleanPowerSF that provide sufficient revenue for the continued financial health of CleanPowerSF. Program rates will be adequate to support program operations, including maintaining revenues necessary to pay CleanPowerSF's obligations under its power supply and other contracts, and future projects, taking into consideration program goals.

CleanPowerSF rates shall be adopted in a manner that is consistent with the SFPUC's Rates Policy principles, balancing *affordability*, *compliance*, *sufficiency*, and *transparency*. All CleanPowerSF budgets, rates, fees, and charges presented by SFPUC staff to the Commission will conform to the SFPUC Rates Policy. Any proposed deviations from this policy will be reported to the Commission along with any resulting impact to CleanPowerSF ratepayers.

In adopting rates for CleanPowerSF, the SFPUC will endeavor to minimize rate volatility. CleanPowerSF rates will be reviewed annually for the upcoming fiscal year and adjusted, as needed, to ensure sufficient revenue to meet its contractual, legal and regulatory obligations, while providing for program affordability.

3. Phasing Policy

It is the policy of the SFPUC that the CleanPowerSF program will be phased-in throughout San Francisco in a manner that is financially prudent and operationally feasible.

Initial and subsequent CleanPowerSF customer enrollments shall be conditional upon:

- a. Program rates being sufficient to cover program costs with rates 0.25% below PG&E generation rates when the program launches in 2016;
- b. Rates for a subsequent phase are projected to be at or below PG&E rates at the launch of each phase;
- c. Program supply commitments are sufficient to meet new projected customer demand;
- d. Staff and systems and/or qualified third party service providers can handle additional energy sales and customer account volumes;
- e. Sufficient and reasonably priced credit, collateral and working capital support is available; and
- f. All rate, contracts and financial support approvals have been obtained.

4. Supply Management Policy

In Ordinance 124-01, and again in Resolution 227-08, the City adopted policies prioritizing energy efficiency and conservation, demand response, renewable generation, distributed generation, and clean and efficient fossil-fired generation, in that order, to provide for a reliable, affordable electric supply. This prioritization, referred to as the “energy loading order”, supports the City’s efforts to reduce the impact of electric supply choices on the environment and to further its environmental justice goals.

As a retail electric service provider, CleanPowerSF will engage in several types of electricity procurement activities for an array of energy-related products. These products may include those related to energy, ancillary services, energy transmission and others that may be defined through legislative, regulatory and market design changes. CleanPowerSF’s procurement activities may include competitive solicitations, bilateral negotiations, programmatic purchases and activities (e.g., energy efficiency and feed-in tariff purchases), project development and participation in the markets run by the California Independent System Operator. As it engages in these procurement activities, CleanPowerSF will implement the City’s energy loading order.

To the extent Hetch Hetchy supplies are available, sales to CleanPowerSF shall be undertaken at fair market value, when not adverse to the public utility ratepayers of the Power Enterprise.

CleanPowerSF power supply procurement activity and performance will be reviewed monthly, quarterly and annually.

Power Supply Risk Management

CleanPowerSF shall develop, implement, and maintain processes to regularly monitor and manage power supply cost and risk, consistent with best utility industry practice. CleanPowerSF has identified the following power supply management risks as critical to ensure a low cost, stable and predictable power portfolio:

- Market price volatility risk: electricity is a commodity that is sold on a wholesale market where prices are set according to supply and demand. Electricity is a unique commodity because supply and demand must be in perfect balance to avoid a grid disruption. To keep the system running power plants must be turned up and down (“dispatched”) to satisfy this demand in real time. Short-term or “spot” electricity market prices can at times exhibit significant volatility, which means the prices can quickly and dramatically change, either up or down. To the extent CleanPowerSF is under supplied, it may be more exposed to purchasing energy on the spot market than desired. Similarly, if CleanPowerSF is over supplied, it may be more exposed to selling its excess energy on the spot market than desired.
- Load (i.e., demand) forecasting risk: power purchasing decisions are based on program short, medium and long-term load forecasts; load forecast error may result in under/over supply procurement, which may expose CleanPowerSF to more market price volatility than desired.

- Variable resource availability risk: most forms of renewable power are variable and not “dispatch-able”: the actual power produced cannot be controlled or produced on demand. In addition, renewable energy is typically sold “As Available;” while a specified quantity is dedicated to the purchaser, the actual watt-hours are not guaranteed and are delivered based on production, (which may be higher or lower than planned due to changing weather and other conditions).
- Counterparty credit risk: A financially weak or unviable counterparty may expose CleanPowerSF to the risk that contracted supply will not be delivered, exposing the program to a supply shortage and more market price volatility than desired.
- Technology risk: energy generation technology is rapidly evolving; entering into excessive long-term contracts therefore may commit CleanPowerSF to a particular technology that may become obsolete or more expensive than energy obtained on the spot market.
- Development risk: when entering into a contract for power from a plant that is not yet constructed and/or operational, CleanPowerSF is exposed to the risk of the energy supply not being delivered on time or at all due to development delays or cancellation.

CleanPowerSF shall use a comprehensive enterprise risk management (ERM) framework to regularly evaluate the risk areas identified above and execute strategies to mitigate those risks and new risks that may emerge over time. Mitigation strategies may include, but are not be limited to:

- Building a supply portfolio that is diverse with respect to generating technologies, plant geographies, suppliers, contract terms, and contract start and end dates;
- Informing portfolio composition with analyses such as load forecasting and mark-to-market and open position (or un-contracted position) analyses;
- Adopting best industry practices in forward contracting, including staggering forward commitments such that CleanPowerSF’s exposure to the market is small in the near term, but not over-committed in the long-term to allow CleanPowerSF to adapt to market conditions as they arise; and
- Setting requirements on suppliers for assurances on counterparty credit and project development schedules.

In addition, for short-term energy trading, CleanPowerSF shall utilize the same risk management policies and procedures laid out in the SFPUC’s Energy Trading and Risk Management (ETRM) policy, as well as its Counterparty Credit Qualifications for Wholesale Trading Policy. These Policies shall be updated from time-to-time and approved by the General Manager. In addition, CleanPowerSF shall be included in the Power Enterprise’s risk management report, which is submitted to the Commission on an annual basis.

Integrated Resource Planning

Consistent with utility industry best practices, CleanPowerSF will conduct an annual Integrated Resource Planning (IRP) process to identify near-term and mid-term power supply needs and inform annual power purchasing activities, taking into account demand reductions projected to result from

energy efficiency and demand response activities. The IRP process will (1) quantify CleanPowerSF's energy resource needs over a 10-year planning period; (2) prioritize resource acquisition preferences and set forth other relevant energy supply policies; and (3) provide guidance to programmatic purchases and activities, electricity purchasing and resource development processes undertaken by CleanPowerSF staff. The IRP process will be conducted and presented to the Commission biennially.

Local Supply Development

The development of local clean energy projects and jobs is one of the objectives of the CleanPowerSF program. The clean energy project and job opportunities CleanPowerSF presents include employment in program administration and operation, behind-the-meter efficiency and generation services, electric vehicle charging and energy storage infrastructure development, and power supply.

To begin to achieve this objective in the near-term, CleanPowerSF will focus on regular, standardized power purchasing with an identified preference for local and regional projects, where cost-effective. CleanPowerSF will also develop and provide Net Energy Metering (for customer-sited behind-the-meter projects); a Feed-in Tariff program (to purchase power from new local projects); and will issue solicitations for the construction of new local and regional renewable energy and storage projects on City-owned and controlled property. Before making any future decisions to construct or cause the construction of specific renewable energy projects subject to the California Environmental Quality Act (CEQA) the SFPUC shall consider any environmental review documents prepared by the City or other lead agency in compliance with CEQA and, if it approves such projects, the SFPUC shall adopt any required CEQA findings as part of such approval actions. Additionally, to help encourage investment in local rooftop solar, CleanPowerSF customers will continue to be eligible for GoSolarSF incentive funds.

CleanPowerSF will ensure customers remain eligible for PG&E services beyond energy supply or develop comparable, more locally-responsive services to be provided by CleanPowerSF. For energy efficiency and demand response programs, CleanPowerSF will focus initially on helping customers understand the opportunities available to them from existing ratepayer-funded programs and then expand, starting with locally-responsive energy efficiency, storage and demand response pilot programs.

CleanPowerSF will balance local project funding with affordability, financial needs, and renewable content enhancements, while establishing spending limits to mitigate the risks of high costs and project failure.

5. Reserves Policy

The SFPUC will prudently manage CleanPowerSF operations in a manner that supports its long-term financial independence and stability, provides sufficient financial capacity to bridge shortfalls in cash flow and covers unanticipated expenditures, while at the same time reduces susceptibility to emergency rate increases due to revenue shortfalls and considers ratepayer impact and fairness.

Prudent reserve policies are critical to securing favorable commercial terms from both third-party service providers and lenders and to the development of a future stand-alone CleanPowerSF credit rating.

Consistent with this policy and with the San Francisco Charter, the SFPUC will adopt budgets and establish rates for CleanPowerSF that provide for adequate ratepayer protection in the form of an Operating Reserve Fund and a Contingency/Rate Stabilization Reserve Fund.

These Funds will be established at the following funding levels to mitigate short-term, unanticipated loss of revenues or increase in expenses; stabilize rates; and support the growth of the program:

- a. Operating Reserve Fund: equal to 90 days of operating expenditures; and
- b. Contingency/Rate Stabilization Reserve Fund: equal to 15% of annual revenues.

The SFPUC will adopt budgets and establish rates for CleanPowerSF with the goal of building up to the above target reserves funding levels within three years of program launch.

6. Program Performance Reporting Policy and Metrics

On an annual basis, CleanPowerSF shall report to the Commission on the program's performance in the following areas and measures.

PERFORMANCE AREA	METRIC
Renewable Energy Content	<ul style="list-style-type: none"> • Percentage (%) of power supply from renewable energy and resource types • Location of projects supplying energy
Local Energy Production and Savings	<ul style="list-style-type: none"> • Amount of energy produced and saved locally (MWh) • Amount of capacity and energy supplied behind-the-meter (MW and MWh)
Environmental Benefits	<ul style="list-style-type: none"> • GHG content of energy supplied (lbs/MWh) • Citywide GHGs reduced (lbs CO₂e)
Economic and Social Benefits	<ul style="list-style-type: none"> • Direct and indirect jobs created (# job-years) • Customer bill savings, including energy efficiency and net metering (\$ and % saved)
Financial Metrics	<ul style="list-style-type: none"> • Progress toward reserves balance targets • Debt coverage ratio