

FRAMEWORK FOR FINANCIAL REPORTING/FORECASTING TO SCL REVIEW PANEL

DRAFT v. 7.16.18

Context for this document: The intent of this document is to help provide SCL management with clarity on what the Panel wants in terms of **financial reporting data**.

Questions for Panel: Is this data helpful? Not helpful? Anything missing? Should the data be provided quarterly, semi-annually, or annually? (suggestions from Steering Committee discussion included below).

Questions for SCL: Are the data requests clear? Can they be provided with reasonable staff effort?

1: ASSESS AND ADVISE RE: STEWARDSHIP OF EXPENDITURES THAT SUPPORT THE STRATEGIC PLAN, OPERATIONS AND FINANCIAL POLICIES. *How can the Panel tell if the Utility needs more or less money year to year and why? What should the priorities be in the next strategic plan?*

Data requests in support of this:

A) Expenditures broken down into high-level aggregates such as ¹

- debt service
- transmission
- distribution
- generation
- wholesale market activities
- customer service
- labor (including tracking vacancy rates)
- conservation
- operational technology

*This supports the
MONITORING components of
the Panel's work plan*
Quarterly reporting

Additionally, break out large sub-categories of spending within each of these.

Within all of these categories show:

- Capital expenditures & O&M.

¹ Suggestions from John Putz were integrated into this item from the 7.11.18 draft.

- Trending data: historical actuals, projected expenditures. Last 2-3 biennial budgets.
- Identification of specific areas (programs) that are at least 10% over or under the forecasted baseline budget

Semi-annual reporting for these last 2 items?

❖ Follow up question for SCL from this data:

- For items trending upward faster than inflation, an explanation as to why.
- For under and over expenditures, **why** are these over- and under-expenditures are occurring? **What** is being done about them?

B) Summary of the major capital projects and their actuals vs forecasted budgets.

(Currently provided in tracking report)

- ❖ Follow up question for SCL from this data: Are there **common trends/issues** that can be identified and addressed? What is being done?

This supports the MONITORING components of the Panel's work plan

Quarterly reporting

C) An assessment/forecast of “key risks” that could have a material impact on the Utility’s ability to deliver the strategic plan commitments – initiatives, operating metrics, revenue requirement, annually and over the strategic planning period.

Include basic assessment of how big each risk is (confidence/probability factor).

Examples would include:

- Risks to compliance with NERC and FERC requirements
- Financial risks (market volatility, interest rates, economic conditions)
- Strategic risks related to customers/competitors
- Operational risks (affecting processes, systems, people)
- Added requirements from City policymakers

This supports the development of STRATEGIC PLAN INITIATIVES & PRIORITIES and UTILITY OF THE FUTURE portion of the Panel's work plan

Annual reporting

- ❖ Follow up question for SCL from this data: Report about what happened with respect to these risks. Did they materialize? What was the impact/response? How is the risk profile changing year to year?

D) Ongoing tracking of Utility's overall financial health. (Most of this is currently provided in tracking report). Data points would include what is now being provided:

- Actual spending v. budget
- Retail revenue v. budget
- Rate Stabilization Account levels
- Wholesale revenue v. budget
- Debt service coverage
- Moody's/S&P rating
- inflation rates on labor, materials –actual v. projected in financial forecast,

This supports the MONITORING components of the Panel's work plan

Quarterly reporting

E) Progress on Initiatives (Most of this is currently provided) Are milestones being met on time? How much, if any, savings generated? Are costs as anticipated? Specific data points requested include:

- General project status
- Anticipated timelines
- Changes in anticipated timelines since last update
- Estimated cost savings realized for initiatives with estimated cost savings
- Estimated cost of implementation vs forecasted

This supports the MONITORING components of the Panel's work plan

Quarterly reporting

2: UNDERSTAND AND ADVISE RE: THE GROWING REGULATORY, DISCRETIONARY, FIXED and VARIABLE COSTS SCL IS FACING. *What is driving SCL costs? Is it City choices/directives or federal/state requirements, or growth, or something different? How much of the growth in revenue requirement is attributable to these various items?*

Data request in support of this:

A) What is the required spending directly on major regulatory requirements such as:

- A State requirement like I-937
- Spending in aggregate on power generation compliance, distribution compliance, etc. that are federally mandated?
- Trends in these costs over time?

This supports the MONITORING Strategic Plan Development and Utility of the Future portions of the Panel's work plan.

Annual reporting

- ❖ Follow up question for SCL from this data: How fast are these projected costs to increase going forward and why?

B) What is the spending on City-policy driven items, and discretionary spending? By

this is meant items such as:

- UDP
- changes in labor policy/contracts
- energy efficiency/conservation in excess of state/federal requirements
- climate action plan not required by state law
- etc.

This supports the MONITORING, Strategic Plan Development and Utility of the Future portions of the Panel's work plan.

Annual reporting

- ❖ Follow up question for SCL from this data: How fast are these costs projected to increase going forward and why?

C) Longer-Term Capital Spending Profile for SCL. Show projected capital spending (debt, cash) and debt service coverage trends. Identify drivers.

- ❖ Follow up question for SCL from this data: What is the preferred long-term target for the level of these expenses? How was it selected? What strategies will you deploy to achieve the target? How will you track success, identify challenges?

This supports the Strategic Plan Development, Monitoring and Utility of the Future portions of the Panel's work plan.

Annual reporting