



WATER CRITERIA OF THE CLIMATE BONDS STANDARD VERIFICATION LETTER

Issuing Entity: The San Francisco Public Utilities Commission

Kind of engagement: Assurance Engagement

Period engagement was carried out: September 1st 2016 to September 29th 2016

Approved verifier: Sustainalytics US Inc.,

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Scope:

The San Francisco Public Utilities Commission (“SFPUC”), has engaged Sustainalytics to review and verify that SFPUC’s green bond meets the requirements for the Water Criteria of the Climate Bonds Standard. The proceeds of the bond will finance the projects under the Water System Improvement Program (“WSIP”). The WSIP program includes a total of 87 projects of which the following large projects were prioritized for assessment as they comprise a significant portion of the WSIP program budget.

- 35201: Alameda Creek Recapture Project
- 37401: Calaveras Dam Replacement
- 37402: Calaveras Reservoir Upgrades
- 35401: Lower Crystal Springs Dam Improvement
- PWI - WSIP Closeout – Peninsula Region (new project 2016)
- 38801: Programmatic Environmental Impact Report (EIR)

The rest of the projects were concluded to have insignificant sensitivity to current and future climate impacts over their operational lifetimes.

Criteria

A. Water Criteria of the Climate Bond Standard

B. Adaptation Theme

1. Allocation - *all criteria*
2. Governance - *all criteria*
3. Diagnostic Assessment - *all criteria*
4. Adaptation Plan - *all criteria*

Please find details of Alliance for Global Water Adaptation's (AGWA) Assessment in Schedule 2.

Issuing Entity's Responsibility

SFPUC is responsible to provide information and documents relating to:

- The details concerning water allocation and availability
- The governance process for water entitlements and allocation, management systems, and conflict resolution mechanisms
- The details concerning the diagnostic assessment conducted
- The details concerning the adaptation plan produced

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of SFPUC's green bond, issued to finance eligible projects included in its Water System Improvement Program ("WSIP"), and provided an independent opinion informing the conformance of the green bond with the Water Criteria of the Climate Bonds Standard. Sustainalytics relied on the assessment conducted by Alliance for Global Water Adaptation to provide this opinion. Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

Verifier's Responsibility

The work undertaken as part of this engagement included conversations with relevant SFPUC management and staff and the review of relevant public and internal documents to assess the following:

- Conformance of SFPUC's green bond with the Water Criteria of the Climate Bonds Standard;
- Conformance with the criteria under the Adaptation Theme: Allocation, Governance, Diagnostic Assessment, and Adaptation Plan;
- Conformance with the Internal Processes & Controls requirements;
- Conformance with Reporting Prior to Issuance requirements.

Basis of the Opinion

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 2.0 and with International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics has relied on the assessment, information and the facts presented by Alliance for Global Water Adaptation with regards to the bond's compliance with Climate Bond Standards. Please find details of Alliance for Global Water Adaptation's (AGWA) Assessment in Schedule 2.

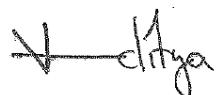
Sustainalytics is not responsible for any aspect of the projects referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by SFPUC and/or AGWA that is not correct or complete.

Restriction on Distribution and Use of Report

This report along with the information provided is for the use and publication of SFPUC and Climate Bond Standard Board only and not for the use of any other external parties.

Opinion

Based on the assessment of SFPUC's green bond under the Water Criteria of the Climate Bonds Standard, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, SFPUC's green bond, issued to finance eligible projects included in the Water System Improvement Program, is not in conformance with the Water Criteria of the Climate Bonds Standard Pre-Issuance Requirements. Sustainalytics believes that the Nominated Projects and Assets will address vulnerabilities of the SFPUC's water supply to climate change and other factors and will contribute to ensure the long-term reliability of the regional water system.



Vikram Puppala
September 29th, 2016
215 Spadina Ave, Suite 300,
Toronto ON M5T 2C7, Canada

Schedule 1A: Water Criteria of the Climate Bonds Standard

Selection of Nominated Projects:	1.1 Statement on the environmental objectives of the bond 1.2 Nominated Projects meet the Climate Bonds criteria 1.3 Document a list of Nominated Projects and Assets 1.4 Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds 1.5 Confirmation that Net Proceeds of the Green Private Placement shall not be greater than the value of the Nominated Projects and Assets
Internal Processes and Controls	2.1.1 Tracking of proceeds 2.1.2 Managing of unallocated proceeds 2.1.3 Earmarking funds to Nominated Projects and Assets
Reporting Prior to Issuance	3.1.1 Investment area of Nominated Projects and Assets 3.1.2 Intended types of temporary investments of unallocated proceeds 3.1.3 Approach of Verifier 3.1.4 Whether periodic assurance engagement will be undertaken

Schedule 1B: Conformance to the Water Criteria of the Climate Bonds Standard

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of requirements specified under Selection of Nominated Projects	<p>1.1 The objective of the bond is to primarily use proceeds to finance the projects under the Water System Improvement Program ("WSIP")</p> <p>1.2 The projects meet the minimum scoring requirements outlined in the Phase 1: Engineered Water Infrastructure under the Water Criteria of the Climate Bonds Standard (Schedule 2).</p> <ul style="list-style-type: none"> • Allocation: 17 of 17 (100 percent) • Governance: 12 of 15 (80 percent) • Diagnostic assessment: 23 of 24 (96 percent) • Adaptation plan: High pass <p>1.3 The Nominated Projects include all projects (87) under the WSIP program from the following were prioritized for assessment.</p> <ul style="list-style-type: none"> • 35201: Alameda Creek Recapture Project • 37401: Calaveras Dam Replacement • 37402: Calaveras Reservoir Upgrades • 35401: Lower Crystal Springs Dam Improvement • PWI - WSIP Closeout – Peninsula Region (new project 2016) • 38801: Programmatic Environmental Impact Report (EIR) <p>1.4 SFPUC's management confirms that the projects shall not be nominated to other Climate Bonds.</p> <p>1.5 SFPUC's management confirms that the net proceeds of the bond shall not be greater than the value of the projects.</p>	None
Verification of requirements specified under Internal Processes and Controls	<p>2.1.1 SFPUC's management confirms that proceeds will be segregated and tracked in a systematic manner and will be exclusively used to finance Eligible Projects.</p>	None

	<p>2.1.2 SFPUC's management confirms that all net proceeds will be immediately used (i.e. allocated at issuance) to finance the Eligible Projects. There will not be any unallocated Net Proceeds.</p> <p>2.1.3 SFPUC's management has confirmed that the proceeds from the bond will be immediately used for the repayment of debt originally raised for the Nominated Projects.</p>	
Verification of requirements specified under Reporting Prior to Issuance	<p>3.1.1 The bond's offer letter confirms that the proceeds of the transaction will primarily be used to finance the projects under WSIP. These fall under the Water Criteria of the Climate Bonds Taxonomy.</p> <p>3.1.2 The bond's offer letter confirms that all net proceeds will be immediately used (i.e. allocated at issuance) to finance the WSIP projects.</p> <p>3.1.3 The bond's offer letter confirms that an approved third party verifier has been appointed to confirm the bond's conformance with pre-issuance requirements of the Water Criteria of the Climate Bonds Standard.</p> <p>3.1.4 The bond's offer letter confirms that an approved third party verifier will conduct post-issuance assurance exercise within a year's time to reaffirm conformance of the bond with the Water Criteria of the Climate Bonds Standard.</p>	None

Schedule 2: Assessment of SFPUC Bond under the Water Criteria of the Climate Bond Standard

Please find details of Alliance for Global Water Adaptation's (AGWA) Assessment in attached file.

Adaptation Assessment

Projects prioritized in this assessment:

- 35201: Alameda Creek Recapture Project
- 37401: Calaveras Dam Replacement
- 37402: Calaveras Reservoir Upgrades
- 35401: Lower Crystal Springs Dam Improvement
- PWI - WSIP Closeout – Peninsula Region (new project 2016)
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The following items related to nominated assets and projects criteria that are currently under development. They are therefore deemed unallocated proceeds at this stage and will be assessed in detail in subsequent reporting:

- 38802: Bioregional Habitat Restoration project
- 38803: Vegetation Restoration of WSIP Construction Sites
- 39401: Watershed Environmental Improvement Program (WEIP)

These projects are defined in precis at two sites:

<http://sfwater.org/index.aspx?page=978>

<https://sfwater.org/modules/showdocument.aspx?documentid=8444>

A spreadsheet has been attached with an additional list of items that, after assessment, we conclude have insignificant sensitivity to current or future climate impacts over their operational lifetimes. This spreadsheet details the reasons for their limited sensitivity.

Please note that many of these components of the issuance are seismic upgrades, and this certification makes no assessment as to utility of these upgrades for reducing or eliminating seismic risk. The Climate Bond Standard, including the Water Criteria, targets issues around climate change impacts and mitigation, and all components of the issuance have been subject to this frame of reference.

The regional watersheds relevant to this scoring:

- Peninsula
- Upper Tuolumne
- Alameda

Sectional scoring:

1. Allocation: 17 of 17 (100 percent)
2. Governance: 12 of 15 (80 percent)
3. Diagnostic assessment: 23 of 24 (96 percent)
4. Adaptation plan: 5 of 5 (100 percent)

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The client is fully responsible for ensuring its commitments` compliance, implementation and monitoring.

SUSTAINALYTICS

Sustainalytics is the largest independent provider of sustainability research, analysis, and services to investors. We serve over 250 institutional investors which include some of the world's largest asset owners and asset managers. Through over 20 years of experience serving the responsible investment (RI) market, we have gained a reputation for providing high-quality ESG research solutions and excellent client service.

Sustainalytics is headed by seasoned professionals in the field of business, finance, and sustainability, with a wealth of experience in the Responsible Investment area. After more than 20 years of local experience and expertise in the Responsible Investment (RI) market Sustainalytics has developed a comprehensive understanding of trends and best practices and a solid process to assist organisations in integrating ESG considerations into their policies and strategies. We have worked with some of the world's financial institutions including pension plans, investment managers and banks providing customised support to help them achieve their RI objectives. Clients include ABN AMRO, APG, BBVA, BNP Paribas, Deutsche Bank, ING Bank, Lombard Odier, Lloyds Bank, Triodos Bank, UBS and over 250 other financial institutions and organisations.

Sustainalytics now has a staff of 250 employees globally, including over 120 analysts, with operations in Amsterdam, Boston, Bucharest, Frankfurt, New York, Paris, London, Singapore, Sydney, Timisoara, and Toronto, and representation in Brussels and Washington DC.



In 2015, Sustainalytics was named the Best SRI or Green Bond Research Firm by GlobalCapital. In December 2014, for the third year in a row, Sustainalytics was named best sustainable and responsible investment research firm in the Independent Research in Responsible Investment (IRRI) Survey, conducted by Thomson Reuters and SRI-CONNECT.

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