

2007 Budget Summary

The District's 2007 Budget summarized on the following pages is a blueprint of planned operating, public goods and debt service expenses, capital expenditures and net loans for the fiscal year beginning January 1, 2007. Historical comparisons to the 2007 Budget adopted by the Board on December 1, 2006 are shown to put the 2007 Budget in perspective. A forecast of actual 2007 expenses is also shown.

Beginning with the 2001 Budget, the O&M and Capital Budgets have been shown by Business Unit rather than organizationally. The District's Business Units correspond to business processes which deliver specific products and services to District customers. The core business processes are represented by the Customer, Energy Supply and Distribution Business Units. Included within Energy Supply and Customer are Public Good costs related to energy efficiency, low income assistance, renewable generation and research and development. These costs are shown separately because they are funded by the Public Goods Charge component of District rates. The Technology, Internal Services and Corporate Services Business Units provide services which enable the other business units to perform their work. The change in planning and budgeting philosophy is to more accurately plan and measure the total cost of the District's business processes and set performance improvement targets for the processes and Business Units that will most efficiently accomplish strategic goals. This budgeting methodology also most efficiently allocates and plans resources from throughout the District to the Business Units and work processes.

Within each Business Unit budget, work processes are subdivided into business segments and individual business processes. Budget detail is provided at both levels. Business segments and processes enable each business unit to effectively plan and measure performance of its operations at a manageable level.

2007 Budget Summary (*continued*)

The budgeted costs shown under each core Business Unit include all the costs of performing the work planned for 2007. These include labor costs from departments throughout the District which perform work in the core business processes. Labor costs include employee benefits, and also an allocation of internal service costs such as transportation, facilities, technology, human resources, and office services based on each department's usage of these services. Net costs budgeted by Technology, Internal Services and Corporate Services represent those process costs that are not allocated to the core business units, such as software training and data conversion, insurance and risk management, cash and debt management, and corporate legal, government affairs, budget and business planning, management and Board of Directors.

The 2007 Budget includes the following major components:

OPERATING EXPENSES: Expenses related to producing and acquiring energy, operating and maintaining the electrical delivery system, providing service to customers including public goods (energy efficiency, low income assistance, new renewable generation sources, and research and development of advanced technologies) programs, corporate activities, and costs related to decommissioning Rancho Seco. Included within this category as a separate line item are commodity costs associated with energy supply. These costs include purchased power, fuel for energy production, and transmission wheeling costs.

Also included under Energy Supply are fuel, operating and interest expense associated with CVFA's Carson Cogeneration plant, SCA's Procter & Gamble plant, SPA's Campbell Soup Cogeneration plant and SFA's Cosumnes Power Plant. These expenses are shown in the SMUD Budget because SMUD will reimburse CVFA, SCA, SPA and SFA for their costs under the terms of the Power Purchase Agreements. The detail CVFA, SCA, SPA and SFA Budgets are also in separate booklets as they will be approved by the CVFA, SCA, SPA and SFA Commissions.

DEBT SERVICE: Interest expense on and principal repayments of the District's outstanding long-term debt and commercial paper notes, and trustee fees and debt issuance costs. Detail is provided in the Budget Summary.



2007 Budget Summary (*continued*)

CAPITAL INVESTMENT: Investment in additions and improvements to the District's property, plant and equipment. The Capital Investment budget includes all qualifying costs related to acquiring or constructing physical assets which meet the District's capitalization guidelines - cost exceeding \$500 and an estimated service life of at least two years. The District follows Federal Energy Regulatory Commission (FERC) capitalization guidelines which dictate the inclusion of all direct costs (labor, employee benefits, materials, services and other) and a proportionate share of indirect costs (engineering and construction supervision and support, transportation, insurance, etc.) related to capital projects. Capital assets are depreciated to expense on a straight-line basis over their estimated useful service life.

**2007 O&M Budget Summary**
(\$ 000s)

O&M	2006 Budget	2006 Forecast	2007 Proposed	\$ Change	% Change
<i>Customer (other)</i>	72,290	72,529	72,092	(197)	0%
<i>Public Good</i>	42,447	43,206	46,415	3,967	9%
Customer (total)	\$ 114,737	\$ 115,735	\$ 118,507	\$3,770	3%
Distribution	\$ 58,434	\$ 60,306	\$ 59,785	\$1,351	2%
<i>Commodity (net)</i>	489,395	431,657	510,624	21,229	4%
<i>Energy Supply (other)</i>	112,863	126,863	123,849	10,985	10%
<i>Decommissioning</i>	11,523	10,664	10,909	(614)	-5%
<i>Public Good</i>	3,768	2,629	6,549	2,781	74%
Energy Supply (total)	\$ 617,550	\$ 571,813	\$ 651,930	\$34,380	6%
Internal Svcs (unallocated)	\$ 12,837	\$ 11,813	\$ 12,448	(\$389)	-3%
Technology (unallocated)	\$ 3,873	\$ 2,212	\$ 4,018	\$145	4%
Corporate Services	\$ 14,117	\$ 14,126	\$ 14,303	\$186	1%
Decommissioning Contribution	\$ 27,000	\$ 27,000	\$ 27,000	\$0	0%
Other Post-Employment Benefits (OPEB)	\$0	\$0	\$17,000	\$17,000	100%
SUBTOTAL O&M	\$ 848,548	\$ 803,005	\$ 904,991	\$ 56,443	7%
Reserve*			\$6,400	\$6,400	100%
TOTAL O&M with Reserve	\$ 848,548	\$ 803,005	\$ 911,391	\$ 62,843	7%
TOTAL Public Good w/o Reserve	\$ 46,215	\$ 45,835	\$ 52,963	\$ 6,748	15%

*LEEDERS Implementation & SB1 Implementation; additional \$800K to come from anticipated 2006 Public Good Rollover



Description of Cost Elements

Activity Type Labor	District employee labor planned directly to a business unit work process. Each Activity Type has a standard hourly charge-out rate that is based on productive (non-leave) hours, average annual employee salaries, and includes benefits.
Cost Center Surcharge	A rate developed to recover the indirect costs of a Cost Center. Includes Activity Type labor for administration, supervision, training, and miscellaneous general expenses such as office supplies and travel and an allocation of internal service costs such as transportation and technology. It is assessed as a percentage of Activity Type Labor planned directly to the work.
Material & Equipment	Materials and equipment either issued from inventory or purchased for a specific project or task.
Material & Warehouse Surcharge	A rate developed to recover the cost of procuring, storing, and handling materials and equipment. It is assessed relative to the cost of the materials or equipment and whether issued from inventory or purchased specifically for a project or task
Other Expenses	All services and other non-material costs not covered by other specific cost elements. This includes insurance, training, travel, rents, leases, advertising, etc.
Utilities & Postage	The cost of telephones, other utilities and postage.
Rebates & Incentives	The cost of energy efficiency rebates and incentives.
Commodities	The cost of purchased power, wheeling, and fuel for District and JPA generating plants.
Surplus/Wholesale Power Sales	The revenue generated from selling energy which is not needed to meet District retail load.
Outside Services	The cost of outside services contracts, consultants, and outside legal service
Contract Services Surcharge	A rate developed to recover the costs of procuring outside service agreements (excluding outside legal service.) It is assessed relative to the contract amount.
Cost Reduction/ Reimbursements	Reimbursements, cost-sharing grants, or pass-through amounts received from outside parties to reduce net costs.
LI/Med Rate Discount	The discount given to customers who qualify for the Low Income or Medical Energy Discount (MED) rate subsidy.
Corporate Allocation	Miscellaneous general and administrative District expenses including insurance and risk management, cash management, debt management, and other. Allocated to capital and public good projects based on a flat District-wide percentage of direct activity type labor.

**2007 O&M Budget Cost Element Summary ***

(\$ 000s)

O&M	2006 Budget	2006 Forecast	2007 Proposed	\$ Change	% Change
Activity Type Labor	\$ 155,401	\$ 154,377	\$ 159,050	\$ 3,649	2%
Cost Center Surcharge	89,774	88,322	94,531	4,757	5%
Material & Equipment	9,509	11,407	9,859	350	4%
Material & Warehouse Surcharge	766	1,133	606	(160)	-21%
Other Expenses	24,888	27,192	27,071	2,183	9%
Utilities & Postage	7,114	6,707	7,228	114	2%
Rebates & Incentives	8,666	9,771	10,108	1,442	17%
Commodities	668,651	633,827	635,290	(33,361)	-5%
Surplus/Whsl Pwr Sales	(179,256)	(202,170)	(124,666)	57,111	-30%
Outside Services	73,552	85,089	85,162	11,610	16%
Contract Services Surcharge	1,117	1,074	1,282	165	15%
Cost Reduction/Reimbursements	(8,957)	(10,398)	(8,904)	53	-1%
LI/MED Rate Discount	15,325	16,323	16,690	1,365	9%
Corporate Allocation	423	411	488	64	15%
O&M Subtotal	\$ 866,973	\$ 823,065	\$ 913,794	\$ 46,822	5%
Int Svc Allocated to Business Units	(44,518)	(43,149)	(50,759)	(6,241)	14%
Tech Allocated to Business Units	(28,767)	(28,311)	(28,202)	565	-2%
JPA Interest	27,860	24,400	26,158	(1,702)	-6%
Decommissioning Contribution	27,000	27,000	27,000	0	0%
Other Post-Employment Benefits	0	0	17,000	17,000	100%
O&M Total	\$ 848,548	\$ 803,005	\$ 904,991	\$ 56,443	7%
Revenue	\$ (8,209)	\$ (11,831)	\$ (9,449)	\$ (1,241)	15%

*Includes Public Good



2007 Public Good - District Summary			
Business Unit Summary	Customer Business Unit (\$000)	Energy Supply Business Unit (\$000)	Total (\$000)
Energy Efficiency - Regular	\$16,145	\$0	\$16,145
Energy Efficiency - IRP	\$5,540	\$0	\$5,540
Energy Efficiency - TOTAL	\$21,685	\$0	\$21,685
Residential Assistance	\$20,546	\$0	\$20,546
Renewables	\$1,964	\$3,455	\$5,419
Research & Development	\$2,218	\$3,094	\$5,312
Total	\$46,415	\$6,549	\$52,963
RESERVE	\$6,400	\$0	\$6,400
TOTAL with Reserve	\$52,815	\$6,549	\$59,363
1 SB1 Implementation (an additional \$800k to come from anticipated 2006 Public Good roll-over).			

Note: Specific Public Good information is provided within the Customer and Energy Supply Business Unit documentation.

**2007 Capital & Net Loans Budget Summary**
(\$ 000s)

Capital	2006 Budget	2006 Forecast	2007 Proposed	\$ Change	% Change
Customer	\$ 10,025	\$ 10,365	\$ 18,761	\$ 8,736	87%
Distribution	78,806	66,347	79,909	1,103	1%
Energy Supply	58,519	61,842	73,205	14,685	25%
Energy Supply Other*	59,285	61,276	40,363	(18,922)	-32%
Internal Services	19,946	18,076	18,465	(1,481)	-7%
Technology	21,205	15,691	22,671	1,466	7%
Subtotal CAPITAL	\$ 247,786	\$ 233,597	\$ 253,373	\$ 5,587	2%
Net Change in Loans	\$3,755	\$5,294	\$7,603	\$3,848	102%
Total Capital & Loans	251,541	238,891	260,976	9,435	4%
Reserve**	0	0	11,000	11,000	100%
TOTAL with Reserve	\$ 251,541	\$ 238,891	\$ 271,976	\$ 20,435	8%

* CPP (2006), Wind, Rosa Gas Supply, Hydro Relicensing - Iowa Hill, Emission Credits, Transmission (Elverta - O'Banion)

**Identified activities: Additional Undergrounding, AMI Project, and End-of-year project carryover.

**2007 Capital & Net Loans Budget Cost Element Summary
(\$000s)**

Capital	2006 Budget	2006 Forecast	2007 Proposed	\$ Change	% Change
Activity Type Labor	\$ 46,192	\$ 45,169	\$ 43,766	\$ (2,426)	-5%
Cost Center Surcharge	28,888	28,253	29,443	555	2%
Material & Equipment	71,453	79,245	79,678	8,225	12%
Material & Warehouse Surcharge	5,481	5,361	6,470	989	18%
Other Expenses	19,692	20,427	14,334	(5,358)	-27%
Utilities & Postage	5	12	17	12	245%
Rebates & Incentives	0	0	0	0	0%
Commodities	0	0	0	0	0%
Outside Services	96,575	81,817	102,200	5,625	6%
Contract Services Surcharge	2,232	1,998	2,762	530	24%
Non-Cash Expenses	0	(212)	0	0	0%
Cost Reduction/Reimbursements	(24,891)	(30,496)	(27,366)	(2,475)	10%
Corporate Allocation	2,159	2,024	2,069	(90)	-4%
Capital Subtotal	\$ 247,786	\$ 233,597	\$ 253,373	\$ 5,587	2%
Net Loans	3,755	5,294	7,603	3,848	102%
Capital & Net Loans	\$ 251,541	\$ 238,891	\$ 260,976	\$ 9,435	4%



District Summary	2006 Approved Positions	2007 Positions Planned	Net Increase/ Decrease
Corporate Services			
Full-Time	64	62	(2)
Other	9	8	(1)
Subtotal	73	70	(3)
Customer			
Full-Time	574	566	(8)
Other	65	53	(12)
Subtotal	639	619	(20)
Distribution			
Full-Time	671	668	(3)
Other	27	42	15
Subtotal	698	710	12
Energy Supply			
Full-Time	322	309	(13)
Other	43	31	(12)
Subtotal	365	340	(25)
Internal Services			
Full-Time	393	415	22
Other	19	18	(1)
Subtotal	412	433	21
Technology			
Full-Time	191	191	0
Other	11	11	0
Subtotal	202	202	0
District Total			
Full-Time	2215	2211	(4)
Other	174	163	(11)
TOTAL	2389	2374	(15)

OTHER positions = Limited Term-TM; and Part-time-PT



LABOR SUMMARY \$000's	2006 Budget	2007 Proposed	\$ Change	% Change
Regular Labor <i>(includes paid leave)</i>	\$162,963	\$165,870	\$2,907	1.8%
Overtime Labor	11,393	11,484	91	0.8%
TOTAL Labor	\$174,356	\$177,354	\$2,998	1.7%
<i>*Employee Benefits information is covered at the end of the Internal Services Business Unit documentation</i>				

2007 Debt Service Budget

The following schedules depict the 2007 Budget for Debt Service. The District issues Electric Revenue Bonds and Commercial Paper Notes to finance long-lived capital assets. The Debt Service Budget includes accrued interest expense on outstanding Electric Revenue Bonds and Commercial Paper Notes, net of any swap revenues tied to specific debt issues, amortization of issuance costs and gain or loss on refundings that were deferred for recovery over the term of the debt, scheduled principal repayments of Bonds and Commercial Paper, trustee fees associated with administration of debt service payments, and issuance costs associated with planned new debt issues.

Revenue Bond Interest and Amortization totals \$102.25 million in the 2007 Budget, a \$3.55 million decrease from 2007. The decrease is due to principal repayments made in 2006.

Commercial Paper Interest totals \$.2 million in the 2007 Budget, a decrease of \$.2 million from 2007. There will be no outstanding commercial paper notes in 2007, and the budget represents commitment fees on the credit facility.

Scheduled principal repayments of revenue bonds and commercial paper notes total \$85.2 million in 2007, a \$10.5 million increase over 2007. The increase is a normal fluctuation in debt service schedules.

Trustee Fees of \$265,000 are lower than the 2007 Budget to reflect the latest estimate of expected costs.

Bond Issuance Costs are not planned for 2007.

Debt Service Summary (\$000's)	2006 Budget	2006 Forecast	2007 Proposed	% Change Proposed to Budget
<u>DESCRIPTION</u>				
REVENUE BOND INTEREST NET ¹	101,390	100,630	97,768	-3.57%
AMORTIZATION ²	4,406	4,406	4,482	1.72%
NET REVENUE BOND INTEREST AND AMOF	105,796	105,036	102,250	-3.35%
COMMERCIAL PAPER INTEREST ³	400	2,370	200	-50.00%
TOTAL INTEREST EXPENSE	106,196	107,406	102,450	-3.53%
PRINCIPAL	74,660	74,660	85,190	14.10%
TRUSTEE AND RATING AGENCY FEES	301	301	265	-11.96%
BOND ISSUANCE COSTS	0	0	0	0.00%
TOTAL BUDGETED DEBT SERVICE	181,157	182,367	187,905	3.72%

¹ Includes all debt-related swap payments and is net of swap revenue. Includes variable rate subordinate debt.
Variable rate assumed to be 3.76% including marketing and other fees.

² Amortization of bond issuance costs, premiums and discounts and gain or loss on refundings.

³ Assumes an interest rate of 3.76% (including all related fees) on average commercial paper balance of \$0 million and a commitment fee of 0.10% on the unused commercial paper facility.



SUMMARY OF DEBT SERVICE ON EXISTING SMUD BOND ISSUES (\$000'S)						
Date Issued	Issue	1/1/2007 Principal Balance	Issued Interest Rate	Final Maturity Date	2007 Scheduled Principal Payment	2007 Interest Expense
Electric Revenue Bonds						
Jun-92	Series A (Refunding)	18,395	6.25%	2009	-	1,150
Oct-93	Series G (Refunding)	27,495	6.50%	2013	-	1,787
Apr-96	Series J	6,200	5.25% to 5.40%	2011	-	330
Jun-97	Series K¹	131,030	5.25% to 5.90%	2024	-	7,196
Jul-97	Series L (Refunding)	183,650	5.00% to 5.20%	2022	-	9,403
Jun-01	Series N	131,085	5.00%	2028	-	6,554
Jun-01	Series O (Refunding)	78,730	4.00% to 5.25%	2024	-	3,988
Sep-01	Series P (Refunding)	76,585	4.00% to 5.25%	2023	-	3,903
Aug-02	Series Q (Refunding)	126,755	3.00% to 5.25%	2028	27,880	5,599
Jun-03	Series R	474,320	2.50% to 5.00%	2033	13,875	22,603
Aug-03	Series S (Refunding)	218,395	5.00%	2020	16,845	10,814
May-04	Series T	130,950	2.50% to 5.50%	2030	565	6,663
	Subtotal	<u>1,603,590</u>			<u>59,165</u>	<u>79,990</u>
Subordinated Electric Revenue Bonds						
Nov-85	1985 Refunding Series	24,575	8.00%	2010	-	1,966
Jul-01	Series A	51,175	Variable	2024	-	1,923
Jul-01	Series B (Refunding)²	22,500	Variable	2008	10,525	683
Aug-02	Series C (Refunding)³	38,725	Variable	2018	2,225	1,423
Aug-02	Series D (Refunding)³	58,100	Variable	2018	3,350	2,135
Aug-02	Series E (Refunding)³	57,225	Variable	2018	3,325	2,103
Aug-02	Series F (Refunding)³	53,250	Variable	2018	3,075	1,957
Aug-02	Series G (Refunding)³	53,250	Variable	2018	3,075	1,957
Jul-03	Series H (Refunding)⁴	55,300	Variable	2028	225	2,075
Jul-03	Series I (Refunding)⁴	55,325	Variable	2028	225	2,076
	Subtotal	<u>469,425</u>			<u>26,025</u>	<u>18,298</u>
	Total Outstanding Bonds	<u>\$2,073,015</u>	Principal & Interest Payments		<u>\$85,190</u>	<u>\$98,288</u>
	Swap Payments and Revenue					(\$520)
	Total Debt Service				\$85,190	\$97,768

¹ Swapped to a variable rate for the life of the debt.

² Rate synthetically fixed via interest rate swap at 4.5%.

³ Rate synthetically fixed via interest rate swap at 4.345%.

⁴ Rate synthetically fixed via interest rate swap at 2.894%.