
**Addendum to the General Manager's Report and
Recommendation on**

Rates and Services

***Addendum No. 1
May 15, 2009***

A Sacramento Municipal Utility District Publication

Addendum No. 1 to the General Manager's Report and
Recommendation on Rates and Services

May 15, 2009

Prepared by:

Sacramento Municipal Utility District's
Pricing Division of the Business Planning and Budget Department
under the direction of:
John Di Stasio, General Manager and Chief Executive Officer

Overview

This Addendum No. 1 incorporates input from public workshops, the Community Outreach meetings and SMUD's Board of Directors and presents the following options:

- Reduces the proposed rate increase that would go into effect on September 1, 2009, from 9.5 percent to 5.5 percent applicable to all rate classes.
- Adds a proposed rate increase of 5.5 percent to go into effect on March 1, 2010, applicable to all rate classes.
- Reduces the proposed rate increase that would go into effect on January 1, 2011, from 3.5 percent to 2.25 percent applicable to all rate classes.
- Modifies language in the section "Medical Equipment Discount (MED) Rate" to have a two-step change to the discount as currently provided.. The first-step adjustment to the MED Rate is proposed to take effect on September 1, 2009, and will provide a \$15 per month flat-rate discount and a 15 percent discount applicable to all energy used in the second tier. The second-step adjustment to the MED Rate is proposed to take effect on January 1, 2011, and will remove the 15 percent discount on second tier energy usage.
- Modifies the effective date of the Street Lighting Service rate from September 1, 2009, to September 22, 2009, to facilitate implementation. Nightlight rates will change on September 1, 2009, as originally proposed.

These modifications are intended to mitigate near term bill impacts to customers as well as facilitate implementation of the rate increase to minimize administrative costs.

For additional copies of this Addendum No. 1, or for information on issues included in the General Manager's Report and Recommendation on Rates and Services, call SMUD's Pricing Division at: (916) 732-6222.

ADDENDUM

ADDENDUM NO. 1, DATED MAY 15, 2009, TO THE GENERAL MANAGER'S REPORT AND RECOMMENDATION ON RATES AND SERVICES DATED MARCH 31, 2009

This Addendum No. 1 contains two parts:

- I Addition to the General Manager's Recommendation
- II Change to Rates

Part I: Addition to the General Manager's Recommendation

The General Manager proposes an additional option of a three-step increase in rates as an alternative to the proposed two-step increase included in the General Manager's Report and Recommendation on Rates and Services dated March 31, 2009. Under this alternative implementation strategy, SMUD would increase rates for all rate classes on September 1, 2009, March 1, 2010, and January 1, 2011. The overall compounded rate increase would be slightly higher than the proposed two step increase but the incremental percentage increases would be smaller, producing less of a bill impact with each increase. The table below shows the proposed three-step increase and the resulting impact on revenue relative to the two-step increase:

Difference in Revenue Collected from Original Proposal of 9.5% (eff. Sep 2009) and 3.5% (eff. Jan 2011)	
Alternate Scenario Rate Increase Effective Sep 2009, Mar 2010, Jan 2011	
	Proposed Rate Increase
September 1, 2009	5.5%
March 1, 2010	5.5%
January 1, 2011	2.25%
	Difference in Revenue in Millions¹
2009	(\$5.2)
2010	(\$0.4)
2011	\$5.4
Total	(\$0.2)
Compounded Rate	13.81%

[1] Rate Stabilization Fund (RSF) transfers will be employed to handle revenue variances. The overall rate increase would be just under 0.5% higher than the proposed two step increase but the incremental percentage increases would be smaller, producing less of a bill impact with each increase.

Based on the table, the alternative three-step increase would:

- Reduce the incremental impact to customers of the proposed two-step increase
- Produce sufficient revenues to maintain appropriate cash flow and debt cover over time
- Spread the increases across three years
- Address customer concerns of having a 9.5 percent increase in 2009

The phase-in proposal would maintain SMUD's financial health while mitigating the impact on customer bills.

Part II – Changes to Rates

Medical Equipment Discount (MED) Rate

The General Manager proposes the option of phasing-in the MED Rate over a two year period. The first phase would include a \$15 fixed discount¹ and a 15 percent second tier discount effective September 1, 2009. The service charge would not be discounted. The second phase would drop the 15 percent discount on second tier usage and be effective January 1, 2011.

Customers who participate in both the MED Rate and the Energy Assistance Program Rate (EAPR) would continue to receive their standard EAPR discount plus a \$15 fixed MED Rate discount effective September 1, 2009. The MED Rate phase-in proposal applies only to customers solely on the MED Rate and it would mitigate significant impacts to MED Rate customers. The following table shows the percentage of MED Rate customers who would see their average monthly discount fall by more than \$30 is significantly reduced with the phase-in proposal.

PROPOSED MED RATE CUSTOMERS AVERAGE MONTHLY BILL IMPACT			
Option	< \$30	\$30-\$60	\$60+
\$15 Flat (no mitigation)	62%	28%	10%
Phase 1 (\$15 Flat & 15% discount on Tier II) effective Sep 1, 2009	84%	15%	1%
Phase 2 (\$15 Flat, removes 15% discount on Tier II) effective Jan 1, 2011	94%	6%	0%

Street Lighting Service

The General Manager recommends that the effective date of the rate increase for street lighting service accounts be September 22, 2009 (the end of cycle 13) rather than September 1, 2009. SMUD bills customers using 21 billing cycles each month. All street lighting service accounts are billed on cycle 13, which usually occurs in the last two weeks of the month. The new effective date would eliminate the need to prorate billings and would minimize implementation costs while having a de minimis impact on revenues.

¹ If a customer's energy usage results in less than \$15 in energy charges, the flat discount would be equal to the actual amount of the customer's energy charges, no bill credits would be paid.

Environmental Assessment to the Addendum No. 1

- 1.0 Section 21080(b)(8) of the California Public Resources Code and Section 15273 of the California Environmental Quality Act (CEQA) Guidelines (California Code of Regulations, Title 14, Sections 15000, et seq.) provide that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies which the public agency finds are for the purpose of:
 - (1) meeting operating expenses, including employee wage rates and fringe benefits;
 - (2) purchasing or leasing supplies, equipment, or materials;
 - (3) meeting financial reserve needs and requirements;
 - (4) obtaining funds for capital projects necessary to maintain service within existing service areas; or
 - (5) obtaining funds necessary to maintain such intra-city transfers as are authorized by city charter.
- 2.0 Section 15061(b)(3) of the CEQA Guidelines provides that where it can be said with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.
- 3.0 The proposed action to reduce the September 1, 2009, rate increase, from 9.5 percent to 5.5 percent for all rate classes, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 4.0 The proposed action to add a March 1, 2010, rate increase of 5.5 percent for all rate classes, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 5.0 The proposed action to reduce the January 1, 2011, rate increase from 3.5 percent to 2.25 percent for all rate classes, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 6.0 It can be seen with certainty that there is no possibility that the proposed action to provide for the Medical Equipment Discount (MED) Rate to have a two-step change to the available discount, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.
- 7.0 It can be seen with certainty that there is no possibility that the proposed action to modify the effective date of the Street Lighting Service rate from September 1, 2009, to September 22, 2009, to facilitate implementation, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.