

SMUD News Release

Sacramento Municipal Utility District

News Media Services

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Standard & Poor's boosts SMUD's bond rating

Upgrade affirms electric utility's business strategy and management

Standard & Poor's, one of the nation's leading credit-rating agencies, is upgrading its opinion of the Sacramento Municipal Utility District's (SMUD's) credit worthiness, raising the utility's rating from A to A+. The upgrade is particularly noteworthy considering the recession and numerous recent downgrades amid criticism that the rating agencies weren't downgrading troubled companies quickly enough.

The boost in SMUD's credit rating would always be considered good news. But recent turmoil in credit markets has made a strong bond rating even more valuable. The upgrade should give investors added confidence when they consider buying SMUD bonds, and as a result SMUD will pay lower interest rates, which directly benefits SMUD ratepayers.

S&P listed many reasons for its increased confidence in SMUD's ability to repay its debts. Among other things, the agency noted that SMUD has a sound business strategy, which includes a focus on maintaining adequate resources, energy efficiency and renewable energy targets that meet or exceed proposed state mandates, and that the District is taking steps to protect cash flow and reach its financial targets with a proposed rate increase the Board of Directors will vote on in June.

SMUD's upgrade comes as the District prepares to issue \$200 million in new bonds to help pay for projects that add to or improve property, plants and equipment. The interest rate on the new bonds will be determined next week.

In evaluating the upcoming bond issue, representatives of the three major rating agencies – S&P, Moody's and Fitch – traveled to Sacramento in mid-April to hear presentations by SMUD executives. Following that meeting, S&P decided to upgrade SMUD's rating while Moody's reaffirmed its previous A1 rating (equivalent to S&P's A+) and Fitch reaffirmed its A rating.

With credit markets just beginning to recover from last fall's paralysis, only the most credit-worthy entities can find buyers for new bonds, and interest rates on new bonds are considerably higher than they were a year ago. The spread on interest rates for highly rated issuers vs. less highly rated issuers is near historic highs.

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Proceeds from next week's bond sale will reimburse SMUD for capital expenditures incurred in 2008 and pay for additional capital expenditures this year. Projects in the capital budget range from routine expenditures, such as replacement of underground cable, poles, transformers and switch gear to energy-supply projects, including studies for the proposed Iowa Hill pumped storage reservoir, initial work on the next phase of expansion at the Solano Wind Project, and upgrades to the gas turbine fleet.

As the nation's sixth largest publicly owned utility, SMUD has been providing low-cost, reliable electricity for more than 60 years to Sacramento County (and a small portion of Placer County). SMUD is a recognized industry leader and award winner for its innovative energy efficiency programs, renewable power technologies, and for its sustainable solutions for a healthier environment. For more information visit smud.org.

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