

Exhibit to Agenda Items #5 and #6

Board Policy Committee and Special SMUD Board of Directors Meeting
Wednesday, October 17, 2018, scheduled to begin at 5:30 p.m.
Customer Service Center, Rubicon Room

Requested Actions

Item 5: Approve Amendment #4 to the Sacramento Municipal Utility District Financing Authority's (SFA) Joint Powers Agreement.

Item 6: Authorize SFA to form a new JPA, Northern California Energy Authority (NCEA) with SMUD for the purpose of issuing commodity prepay bonds and entering into a commodity prepay transaction.

Flexible Prepay Structure

Flexible and Innovative for California POU's

- Aligns with long-term IRP goals, helping SMUD meet its carbon reduction targets
- Flexible commodity prepay allows for a switch from natural gas to electricity or biogas with notice to align with resource plans or adapt to regulation changes
- “Take and Pay” supply agreement with remarketing rights and the ability to move delivery points

Similar Financial Benefits and Risk Mitigations

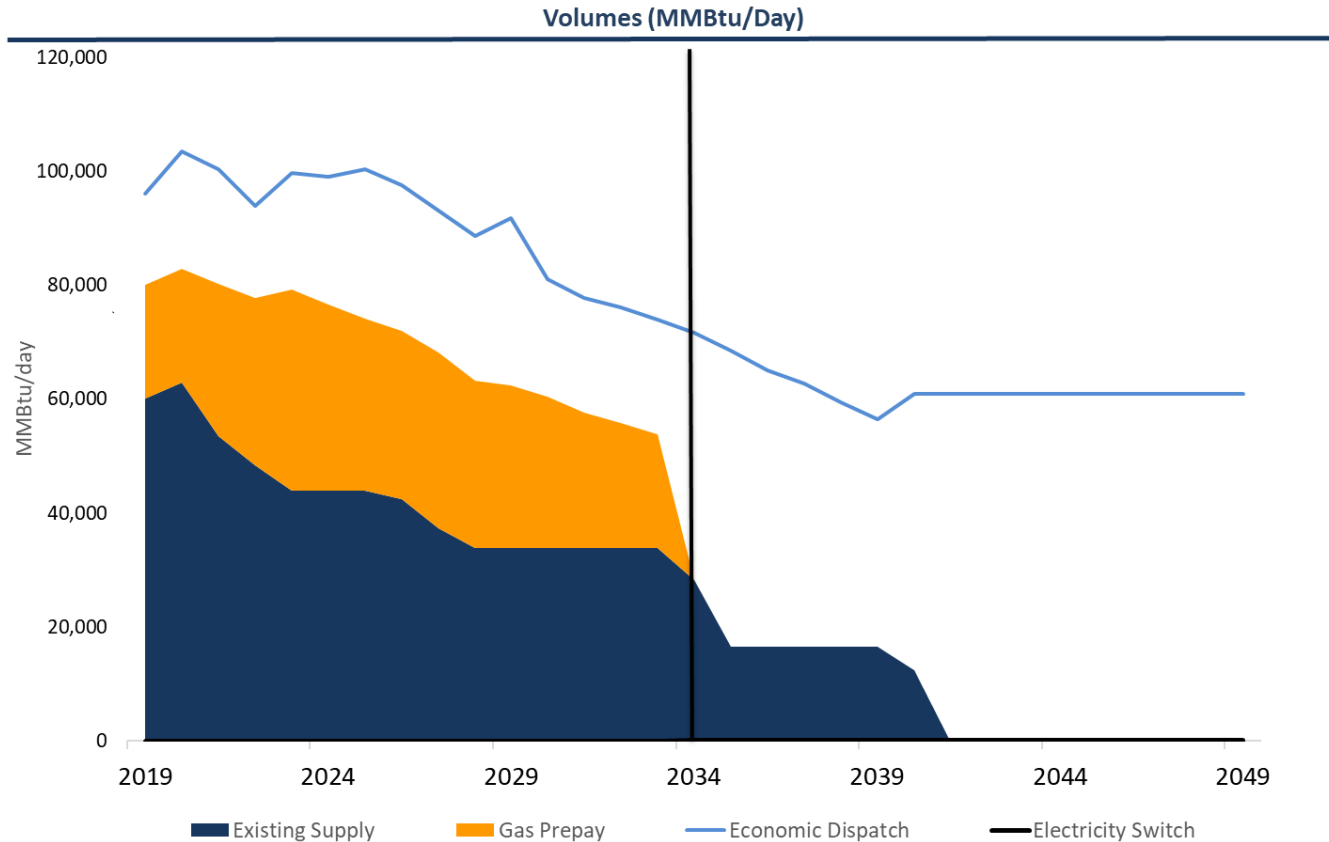
- Captures a discount on commodity purchases needed to serve load
- Savings supports SD-2 goal of providing for affordable rates while providing the flexibility for reducing greenhouse gas emissions
- SMUD only obligated to pay for the commodity delivered
- Debt excluded from ratings agency calculations for fixed charge coverage and debt ratio

Commodity Prepay Proposal

- RFP received three responses for underwriter/commodity supplier
 - Goldman Sachs/J Aron selected based on projected savings and most flexible structure
- SMUD enters into a 30-year commodity prepay that starts as natural gas but would switch to electricity or another commodity
 - Proposed 15-30k MMBtu/day annually and seasonally shaped (approx. \$450-550 million debt issuance)
 - \$2-4M annual savings dependent on volumes and market conditions
 - Guaranteed minimum savings for the life of the transaction or SMUD can terminate (~\$1M annually)
 - Current contract option being considered switches to electricity at year 15 to align with proposed IRP

IRP & Gas Supply

Existing Gas Supply + Prepay with switch to electricity in year 15



JPA Structure Experience

- SMUD plans to issue debt via new JPA to be formed after authorization is obtained
 - Requires SMUD and SFA action amending JPA agreement and forming new JPA (also requires MID to approve amendment)
- SMUD has used the JPA structure for financing power plants and other commodity prepay purchases
 - Power plant financings through SFA, SPA and SCA among others
- JPA structure helps insulate the utility from certain risks and supports maintaining SMUD financial metrics tied to ratings

Prepay Timeline

