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**RESOLUTION NO. \_\_\_\_\_**

**WHEREAS**, by Resolution No. 14-08-04, adopted August 21, 2014, this Board approved amendments to the SMUD **Energy Risk Management and Energy Trading Standards (ERM&ETS)**; and

**WHEREAS**, **Pacific Gas & Electric (PG&E)** has a sizeable owned and contracted-for generation portfolio to serve its bundled customer loads; and

**WHEREAS**, because of load departures related to customer direct access, **Community Choice Aggregator (CCA)** formations and distributed generation, **PG&E** has a sizeable resource surplus that it makes available to Direct Access suppliers and CCAs; and

**WHEREAS**, this surplus makes **PG&E** the largest supplier of **Resource Adequacy (RA)** capacity (capacity used to maintain system reliability) in the northern part of the state and the largest single **RA** capacity supplier for SMUD's **CCA** client, **Valley Clean Energy**; and

**WHEREAS**, SMUD's **ERM&ETS**, as approved by the Board, prohibit energy transactions with any counterparty whose bond rating is below investment grade unless the counterparty posts enough collateral to cover the transaction; and

**WHEREAS**, **PG&E** has refused to enter into energy transactions that require collateral postings in the event of ratings decline; and

**WHEREAS**, rating agencies have lowered **PG&E's** bond ratings due to concerns about **PG&E's** potential financial exposure to liabilities associated with recent wildfires to "below investment grade"; and

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**WHEREAS**, on January 29, 2019, **PG&E** filed for Chapter 11 bankruptcy protection; and

**WHEREAS**, to continue fulfilling its procurement obligations for its **CCA** client **VCE** and its own **RA** capacity and other commodity needs before **PG&E** emerges from bankruptcy with an adequate credit rating established, SMUD may need to continue entering into forward **RA** capacity contracts with **PG&E**; and

**WHEREAS**, **PG&E** obtained \$5.5 billion in Debtor-In-Possession (DIP) financing from a consortium of four major banks to fund operations, make required investments, and continue with safety initiatives throughout their Chapter 11 bankruptcy proceeding, making it unlikely it will fail to deliver on its **RA** capacity commitments for which they will be compensated; and

**WHEREAS**, staff recommends that the Board approve an exception amend the **ERM&ETS** to insert an exception to the current prohibition on transactions with less than credit worthy parties in the event the following conditions exist: (1) The counterparty is a key supplier of the particular energy product and (2) to the **ERM&ETS**' prohibition on transactions with less than creditworthy parties and authorize the Chief Executive Officer and General Manager to enter into transactions with **PG&E** for the energy products ~~is an~~ necessary for meeting SMUD's or its **CCA** Credit Services client's regulatory and/or reliability requirements; and

**WHEREAS**, the above exception would apply to any transactions entered into over the next twelve (12) months; and

**WHEREAS**, there is no significant additional risk to SMUD under the circumstances proposed for such exception; **NOW, THEREFORE, and**

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~~WHEREAS, the Board now wishes to amend the ERM&ETS; NOW,  
THEREFORE,~~

## BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT:

**Section 1.** This Board approves ~~the amendments~~an exception to the **Energy Risk Management and Energy Trading Standards,** to allow the Chief Executive Officer and General Manager, or his designee, to enter into transactions with PG&E for energy products necessary for meeting SMUD's or its CCA Credit Services client's regulatory and/or reliability requirements. substantially in the form set forth in Attachment \_\_\_\_\_ hereto and made a part hereof.

**Section 2.** This exception to the Energy Risk Management and Energy Trading Standards shall apply for a period of twelve months from the effective date of this resolution.

**Section 3.** Staff will report back to the Board with information on any transactions entered into pursuant to this resolution and shall seek additional Board approval to the extent that any exception to the Energy Risk Management and Energy Trading Standards is required beyond the initial twelve-month period. Resolution No. 14-08-04 is superseded in its entirety.