

Exhibit to Agenda Item #12

Board of Directors Meeting
Monday, June 24, 2019
6:00 p.m.
Customer Service Center, Rubicon Room

Powering forward. Together.



2019 rate process summary

- Released Chief Executive Officer and General Manager's Report and Recommendation on Rates and Services on March 21, 2019
- Released Addenda modifying and removing the proposed Grid Access Charge
 - No. 1 dated April 12, 2019
 - No. 2 dated April 22, 2019
- Hosted two public workshops
 - Tuesday, April 23, 2019 at 10 am
 - Thursday, May 9, 2019 at 6 pm
- Hosted Public Hearing on June 4, 2019 at 6 pm
 - Introduced draft rates resolution for at least a 10 day public review and comment period
- Decision on rates resolution on June 24, 2019

Proposed rate changes

- Increase residential, commercial, and agriculture rates
 - 3.75% on Jan. 1, 2020
 - 3.00% on Oct. 1, 2020
 - 2.50% on Jan. 1, 2021
 - 2.00% on Oct. 1, 2021
- Commercial customer rate restructure
 - Increase fixed charge components while decreasing energy charges
 - Adjust time of day periods
 - Make rate structure consistent across customer types
 - Rate transition from 2021 through 2028
- Miscellaneous rate changes to rates, rules and regulations

Why are these changes needed?



To improve pricing consistency and equity for all customers.



To ensure rates keep pace with the changing utility industry, technology, climate and customer needs.



To update the grid to incorporate clean energy resources like solar.

What will the changes support?



Wildfire mitigation



Capacity for peak demand



Technology



Carbon reduction program

Rate Increase Change

	Original Proposal	New Proposal
January 1, 2020	4.75%	3.75%
October 1, 2020	-	3.00%
January 1, 2021	4.50%	2.50%
October 1, 2021	-	2.00%
Cumulative Increase	9.5%	11.7%
Total Additional Revenue for 2020-2021 (millions)	\$193	\$193

Totals may not add due to rounding. Totals will not match the income statement due to unbilled revenue and other factors. Excludes special contracts, pilot rates, and lighting fees.

Revenue requirement with rate increase

- The rate increases will be applied equally to all customer classes
- Total additional revenue with proposed rate increases
 - 2020 \$ 58M
 - 2021 \$ 135M
 - Cumulative \$ 193M

Totals may not add due to rounding. Totals will not match the income statement due to unbilled revenue and other factors.
Excludes special contracts, pilot rates, and lighting fees.

Bill Impacts with proposed rate increases for 2020 & 2021

- 3.75% Jan. 1, 2020
- 3.00% Oct. 1, 2020



- 2.50% Jan. 1, 2021
- 2.00% Oct. 1, 2021

Sample 2020 and 2021 Monthly Bill Increases

Rate Class	2019 Monthly Bill	2020 Increase	2021 Increase
Small (20 -299 kW)	\$2,598	\$117	\$144
Medium (500 – 999 kW)	\$22,675	\$1,019	\$1,262
Large (>1,000 kW)	\$85,937	\$3,881	\$4,776
Agriculture (Ag & Pumping)	\$329	\$15	\$18
Residential (750 kWh-mo)	\$114	\$4.94	\$6.38

Public Outreach Process

Robust engagement customized by audience



Vulnerable Populations

Low income, Fixed income, Seniors



Community & Business Leaders

Chambers, CBOs, Opinion Leaders



Neighborhood, Svc & Faith Based
HOAs, Rotary, Kiwanis, Large Churches, etc.



Elected Officials
State, City and County elected officials

Direct Engagement

- **70+** organizations received in-person presentations, including 29 at roundtables, 26 community/elected, and 20 at our Business Advisory Council meeting
- **200+** community & business leaders were invited to the roundtables and offered meetings
- **550+** neighborhood associations, churches and service groups were contacted about the rate process and offered additional information
- **56** elected officials were mailed info packets and offered additional meetings; **9** meetings held
- **368,000+** customers and organizations were emailed details on the rate process.
- **20+** chambers and PBIDs sent rate action information and details to their memberships

Customer feedback about rate proposal

100+ calls were received during the outreach period

275+ emails were received during the outreach period (majority of emails were template based)

Customer Responses

- Most customers seem to understand the rate increase portion of the proposal and the reasons behind it
- Many customers expressed concerns about the Grid Access Charge (removed from proposal on April 22) – we did receive a few emails in support of the proposal
- After the Grid Access Charge was removed from the proposal, we received positive feedback for listening to customers
- Majority of concerns regarding rate increase came from residential fixed-income customers
- Some commercial customers had positive reactions to how commercial restructure will impact them
- Some of our largest commercial customers concerned about rate increase impact to their operations.
- Some customers (both residential and commercial) concerned about the number and cumulative impact of having multiple rate increases per year.

Key Areas of Interest

- Grid Access Charge
- Involvement in stakeholder process for future NEM proposal
- Fixed cost recovery
- Impact of all rate changes on low-income/fixed income customers
- Wildfire mitigation
- Forecasting for future increases
- Low-income benefits and programs
- What is SMUD doing with EVs?
- Want to know the impact of commercial restructure on their own business

Alternative recommendation #1

- **Recommendation:** Do not increase rates
- **Response:**
 - This recommendation does not provide sufficient revenue in 2020 and 2021 to operate effectively and maintain financial metrics
 - The rate increases are necessary to cover
 - Wildfire mitigation costs
 - Capacity cost to maintain reliability during peak demand
 - Technology solutions to support cyber security, customer experience, improved reliability and distributed energy resources
 - Increases in labor/staffing expenses
 - Implementation of carbon reduction goals adopted by the Board
 - This would likely negatively impact SMUD's credit rating
 - This would postpone SMUD's carbon reduction plan and increase operating risk

Alternative recommendation #2

- **Recommendation:** Target rate increases to customers that consume excess energy and cause increased costs
- **Response:**
 - SMUD allocates cost responsibility through a combination of fixed charges and energy charges
 - SMUD is leading the industry with time-based rates that better reflect cost and send appropriate price signals
 - SMUD's rate structures reflects a higher per kWh charge when electricity is more expensive and when the least environmentally-friendly energy is being generated, which incentivizes conservation when it is most needed
 - Time-based pricing gives customers flexibility and control of their bills by allowing them to manage their usage

Alternative recommendation #3

- **Recommendation:** Implement residential tiered rates
- **Response:**
 - SMUD moved away from tiered rates over the last five years
 - Time-of-Day (TOD) pricing is the favored policy within California, and utilities are gradually implementing TOD rates
 - The time of day when customers use energy is as important as how much energy they use
 - During peak time periods, more carbon intense resources are used to produce energy
 - Tiered rates do not encourage shifting usage out of peak periods when electricity is more expensive and more carbon intensive
 - Tiered rates discourage electrification which is an integral part of the Board's recently adopted carbon reduction plan
 - TOD rates are consistent with SD-2 rate principles

Alternative recommendation #4

- **Recommendation:** Reduce the current residential 2019 rates by the “9.2% scalar” and then increase rates by 4.75% in 2020 and 4.50% in 2021
- **Response:**
 - This rate action does not include restructuring the current residential rates which were adopted by the Board in 2017
 - The scalar was used to reconcile marginal cost to achieve a revenue neutral rate design
 - Adjusting marginal cost based rates by a scalar is an accepted practice by the industry (also referred to as equal percent of marginal costs or EPMC)

Alternative recommendation #5

- **Recommendation:** Eliminate the System Infrastructure Fixed Charge, or SIFC
- **Response:**
 - Board directives support rates that address fixed cost recovery through an SIFC to more closely reflect cost
 - SMUD allocates cost responsibility through a combination of the SIFC and energy charges. This approach:
 - Better allocates cost responsibility between customers
 - Helps maintain financial viability and access to credit markets
 - This recommendation would require an increase to the per kWh energy charges, discouraging electrification.
 - Electrification is an integral part of the Board's recently adopted carbon reduction plan
 - This recommendation is inconsistent with SD-2

End of Presentation

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