

Exhibit to Agenda Item #1

Board Energy Resources & Customer Services Committee Meeting and
Special SMUD Board of Directors Meeting

Wednesday, November 20, 2019 scheduled to begin immediately
following the Finance and Audit committee meeting, scheduled to begin at
5:30 p.m.

Customer Service Center, Rubicon Room

Negotiate and Execute Purchase and Sale Agreement between SMUD and LOGOS

Board Policy

- Competitive Rates (SD-2)
- Reliability (SD-4)
- Environmental Leadership (SD-7)
- Resource Planning (SD-9)

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Background

- In 2003, SMUD purchased a 21 percent ownership interest in ~500 wells in the Rosa Unit Natural Gas Reserves in New Mexico
- At peak, Rosa produced ~25% (30k dth) of daily gas needs and saved SMUD more than \$80 million off market price

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Current Context

- Produces ~6% (7k dth) of daily needs and costs exceed market price
- Added drilling investment is not economical
- O&M costs are not declining as rapidly as production so cost/unit is increasing

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Current Context

- Potential for increasing environmental obligations related to decommissioning
- More effective to hedge gas needs with tailored term, volumes, and delivery points
- Continued investment is not aligned with Board-approved IRP

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Key Contract Terms

- LOGOS assumes 100% of SMUD's interests including decommissioning costs of ~\$10-12 million
- LOGOS assumes environmental liabilities and obligations
- LOGOS assumes responsibility for paying all future royalties and severance taxes

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Key Contract Terms

- LOGOS agrees to limited title due diligence since it already owns a majority stake in Rosa
- SMUD pays LOGOS ~\$8.5 million for future decommissioning costs, imbalance gas, and other considerations
- SMUD retains royalty obligations for errors during our period of ownership

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Benefits

- Cost-effective reduction in carbon footprint
- Annual budget savings after 2019 write-off of ~\$44 million non-cash expense
- Eliminate future liability for decommissioning costs of ~\$10-12 million

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Benefits

- Reduced legal, environmental, and financial liability
- Reduced administration and reallocation of thousands of hours of staff time
- Greater flexibility with energy supply portfolio

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Risks

- Prices of natural gas could rise making Rosa profitable again
 - Mitigation: Traders lock in a market purchase today to hedge against a price increase tomorrow
- Transaction does not close in 2019 and rolls into 2020 which is less favorable from a net income perspective
 - Mitigation: If SMUD has a signed commitment in 2019, asset can be written off in 2019 in anticipation of closing in 2020.

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Requested Action

- Authorize the CEO & General Manager, or his delegate, to negotiate and execute the Purchase and Sale Agreement (PSA) by and between Sacramento Municipal Utility District (SMUD) and LOGOS Resources II, LLC (LOGOS) for the divestment of all of SMUD's interests in the Rosa Unit Gas Reserves (Rosa)