

Exhibit to Agenda Item #3

Board Policy Committee and Special SMUD Board of Directors Meeting
Wednesday, February 12, 2020, scheduled to begin at 5:30 p.m.
Auditorium, SMUD Headquarters Building

Low Carbon Fuel Standard Clean Fuel Reward Background

The Clean Fuel Reward (CFR) program will be a new statewide electric vehicle point of purchase incentive program funded through utility residential Low Carbon Fuel Standard (LCFS) credits

CARB is requiring all utilities to participate in the program to receive access to the residential LCFS credits associated with their service territory

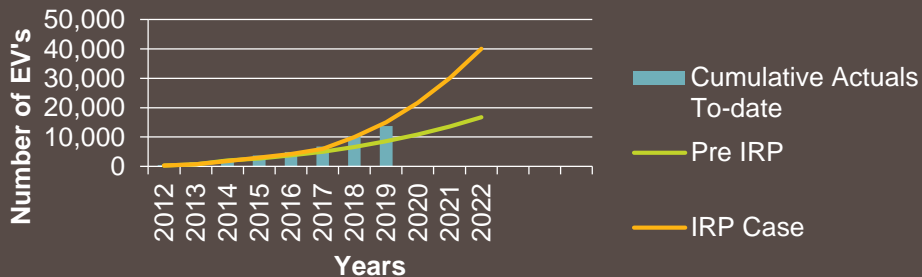
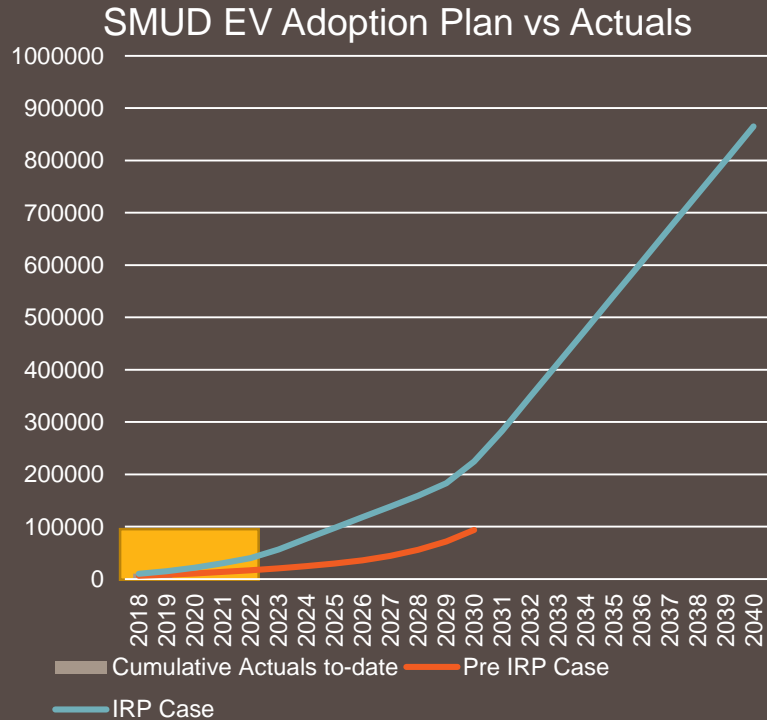
Utilities are required to dedicate a portion of their residential LCFS credits to support the program

SMUD's CFR support is 35% of our residential credits until 2024 and 45% thereafter

Approximately \$2.6M in 2020, \$3.7M in 2021 and \$5.1M in 2022

50% equity spending requirement on the remaining 65/55% of the LCFS credits

Clean Fuel Reward Program Objectives



Help accelerate EV Sales in the state by reducing high up front cost barriers

Create a more effective incentive by implementing it at the point of purchase statewide

Pool utility LCFS funds to get a higher value incentive level
(SMUD customers stand to gain)

SMUD was instrumental in the CFR development

A task force consisting of utilities, automakers and regulators outlined the basics of the program starting in the summer of 2018

A utility/CARB task force led by SMUD crafted the governance agreement from February to October 2019

Southern California Edison will be the program administrator for the first 3 years then transitioning to a standalone 501.C.6 entity

Contractor controls and risk reduction waterfalls are built into the governance structure

SMUD will participate as a key required steering committee member

Governance Agreement Provisions

SCE will be the initial program implementation entity for the first 3 years

Program oversight will be from a Steering committee comprised of the following:

Big 5 Utilities and One North and One South Medium/Small POU representative (Total 7)
California Air Resource Board as a non-voting member

Establishes a non-voting Advisory Committee

Automakers, Non-governmental organizations, Equity based stakeholders

Requires LCFS contributions be made in a timely manner to support program cash flow

Big 5 utilities (95% of the cash flow) are required quarterly
Medium and Small Public Owned Utilities are on an annual schedule

Liability Risks covered via a waterfall approach

1) Insurance policy (if possible) 2) Risk Reserve Fund 3) Remaining Program assets, 4) Future program assets 5) Individual utility funds as a last resort (proportionately by utility)

Big 5 Utility approvals need to get things started

SMUD approval will put in motion formation of the CFR Steering Committee

Big 5 approval required prior to Small and Medium POU's

Steering Committee is required to release contractor solicitations

Implementation Contractor

Financial Contractor

Auditing Contractor

Program Launch is expected late 2nd Quarter or early 3rd Quarter of 2020

Start up funding for each utility also required on formation (pro rata share of \$50M)

SMUD portion is approximately \$2M in addition to our regular 35% annual contribution

SMUD LCFS credits are already held in reserve for this expense

Requested Action / Alternatives

Requested Action

Approve SMUD participation in the Clean Fuel Reward Program and execution of the Governance Agreement

Alternative

Forfeit all residential LCFS credits and scale back SMUD EV program activities given that residential LCFS credits fund approximately 90% of SMUD's EV Program activity