

# Exhibit to Agenda Item #1

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

Wednesday, January 15, 2020 scheduled to begin at 5:30 p.m.

SMUD Headquarters Building, Auditorium

# Requested Action

---

Authorize the Chief Executive Officer and General Manager to enter into a Gas Transmission Service Agreement between Sacramento Municipal Utility District (SMUD) and Pacific Gas & Electric Company (PG&E) for the transmission of PG&E gas through the SMUD gas pipeline to allow PG&E to continue its gas service to the Procter & Gamble Company and Air Products and Chemicals, Incorporated facilities in Sacramento, and to take such other actions as may be necessary and appropriate to implement that Agreement. Approve an exception to the Energy Risk Management and Energy Trading Standards (ERM&ETS) to allow the Chief Executive Officer and General Manager, or his designee, to enter into the transaction with PG&E to provide gas transmission service.

# Procter & Gamble

---

*The Procter & Gamble Sacramento plant has been operating for more than 60 years. The plant manufactures and distributes natural ingredients for a wide range of household products. The plant converts coconut oil into a variety of chemical products, most importantly fatty alcohols, for use by P&G as well as for sale to other industrial customers. P&G is the only natural fatty alcohol manufacturer remaining in the United States. Competing products come from Malaysia and Indonesia.*

- **120 employees**
- **\$70 million last year in payments to local companies, employees, the city and county**
- **Annual electric revenue to SMUD = \$3.4 Million**
- **Annual steam revenue to SMUD = \$4.4 Million**

# Air Products and Chemicals

---

*The Air Products Sacramento plant manufactures and distributes hydrogen for the semiconductor industry, with deliveries in OR, AZ and CA and is also a major supplier to the hydrogen fueling infrastructure. This location is one of only nine hydrogen plants in North America.*

- 20 employees*
- \$23 million last year in payments to local companies, employees, the city and county*
- Annual electric revenue to SMUD = \$2.5 Million*

# Problem Statement

---

- In March 2020 PG&E will be decommissioning a high-pressure natural gas distribution line currently serving the Procter & Gamble and Air Products & Chemicals (customers) facilities.
  - This pipeline has reached end of life and is no longer viable.
  - The costs to the customers and timeline for PG&E to replace the line, or for the customers to install compression, are prohibitive.
  - Without an alternative solution, the continued viability of both Procter & Gamble and Air Products Sacramento operations are at risk.

# Opportunity

---

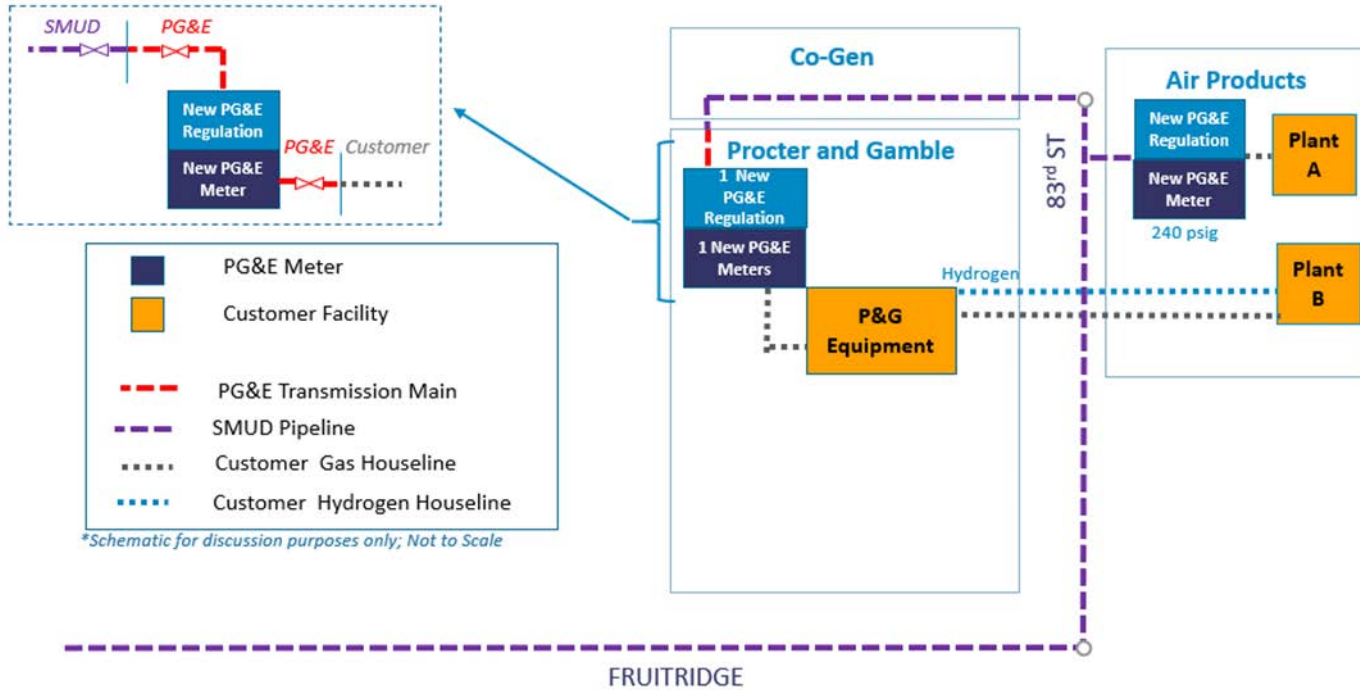
- SMUD's high-pressure transmission line (Line 700B) runs parallel to the customers' facilities.
- At the customers' request, SMUD agreed to work with PG&E to identify a lower cost alternative to maintaining high pressure gas deliveries.
- All parties agree that the most cost-effective solution is for SMUD to provide gas transmission services to PG&E through SMUD's existing pipeline.
- Potential new revenue > \$500,000/year.

# Proposed Solution

---

- SMUD will construct two separate natural gas connection points for PG&E to use as it serves its customers.
- PG&E will construct the interconnecting metering and regulation as required to connect its customers to SMUD's system.
- PG&E will reimburse SMUD for all construction and maintenance costs, plus
- PG&E will pay a tariff rate for the transportation of gas through the SMUD system.

# Proposed Service Schematic





# Threshold Issues

---

- SMUD retains operational flexibility to meet all resource requirements
- PG&E retains customer relationship
- SMUD will receive full cost recovery from PG&E
- Don't trigger any unmanageable regulatory requirement
- Don't overstep jurisdictional boundaries
- ERM&ETS Exemption required

# Agreement Terms

---

- Indefinite term
- Termination provisions:
  - Convenience with 12 months notice
  - Cause with 30 days notice to cure
  - Unresolvable interference with service to SMUD customers
- Service Obligations
  - Maximum flow rate is about 2.4% of SMUD system flow
  - Minimum gas pressure is 70% of SMUD system minimum pressure

# Agreement Terms (cont.)

---

- PG&E obligations
  - Construction, maintenance and transportation costs
  - All gas system imbalances related to Procter and Air Products use
  - Retaining the customer relationship with Procter and Air Products
- Mutual Indemnity
- Transportation fee
  - PG&E to pay SMUD  $\frac{1}{2}$  of the local transportation tariff they charge to the end customer
  - Currently ~46cents/Dth

# Requested Action

---

Authorize the Chief Executive Officer and General Manager to enter into a Gas Transmission Service Agreement between Sacramento Municipal Utility District (SMUD) and Pacific Gas & Electric Company (PG&E) for the transmission of PG&E gas through the SMUD gas pipeline to allow PG&E to continue its gas service to the Procter & Gamble Company and Air Products and Chemicals, Incorporated facilities in Sacramento, and to take such other actions as may be necessary and appropriate to implement that Agreement. Approve an exception to the Energy Risk Management and Energy Trading Standards (ERM&ETS) to allow the Chief Executive Officer and General Manager, or his designee, to enter into the transaction with PG&E to provide gas transmission service.