

Board Policy Committee Meeting and Special SMUD Board of Directors Meeting

Date: Wednesday, February 9, 2022

Time: Scheduled to begin at 5:30 p.m.

Location: Virtual Meeting (online)

Powering forward. Together.



AGENDA BOARD POLICY COMMITTEE MEETING AND SPECIAL SMUD BOARD OF DIRECTORS MEETING

Wednesday, February 9, 2022

Scheduled to begin at 5:30 p.m.

Zoom Webinar Link: [Join Board Policy Committee Meeting Here](#)

Webinar/Meeting ID: 161 726 9424

Passcode: 570858

Phone Dial-in Number: 1-669-254-5252 or 1-833-568-8864 (Toll Free)

Pursuant to Government Code section 54953(e) and the Emergency Board Meeting Procedures adopted by the SMUD Board of Directors, the regular Board meeting and other public meetings are currently conducted solely via virtual (online/teleconference) meeting to align with state, local, and federal guidelines for the containment of the coronavirus.

Live video streams and indexed archives of meetings are available at:

http://smud.granicus.com/ViewPublisher.php?view_id=16

Members of the public may register to provide verbal comments at an upcoming Board or Committee meeting by emailing a request to speak to PublicComment@smud.org. Please include the date of the meeting, name, and topic or agenda item the requestor wishes to speak on. The request may also be submitted while the meeting is in progress during the standard time for the agenda item or topic. **Pre-registration is strongly encouraged by no later than 3:00 p.m. on the day of the meeting.**

Members of the public may provide written public comments on a specific agenda item or on items not on the agenda (general public comment) by submitting comments via e-mail. Comments may be submitted to PublicComment@smud.org and will be placed into the record of the meeting.

Members of the public that are listening to or watching the live stream of a Committee meeting and wish to comment on a specific agenda item as it is being heard may submit their comments, limited to 250 words or less, to PublicComment@smud.org, noting the agenda item number in the subject line. The Committee Chair may read comments for items on the agenda into the record, in his discretion, based upon such factors as the length of the agenda or the number of e-mail comments received. General public comment for items not on the agenda will not be read into the record but will be provided to the Board and placed into the record of the Board meeting if it is received within two hours after the meeting ends.

This Committee meeting is noticed as a joint meeting with the Board of Directors for compliance with the Brown Act. In order to preserve the function of the Committee as advisory to the Board, members of the Board may attend and participate in the discussions, but no Board action will be taken. The Policy Committee will review, discuss and provide the Committee's recommendation on the following:

DISCUSSION ITEMS

1. Alcides Hernandez Accept the monitoring report for **Strategic Direction SD-2, Competitive Rates.**
Presentation: 10 minutes
Discussion: 10 minutes
2. Russell Mills Accept the monitoring report for **Strategic Direction SD-3, Access to Credit Markets.**
Presentation: 7 minutes
Discussion: 10 minutes

INFORMATIONAL ITEMS

3. Patrick Durham Brief the Board on SMUD's development of a **Land Acknowledgement Statement.**
Presentation: 10 minutes
Discussion: 20 minutes
4. Eric Douglas Review the results of the 2022 Board Survey and Assessment.
Presentation: 20 minutes
Discussion: 25 minutes
5. Brandon Rose Board Work Plan.
Discussion: 5 minutes
6. Public Comment
7. Dave Tamayo Summary of Committee Direction.
Discussion: 1 minute

Pursuant to Resolution No. 20-06-08 adopted on June 18, 2020, Emergency Board Meeting Procedures are in effect:

Members of the public may make either a general public comment or comment on a specific agenda item by submitting comments via email. Comments may be submitted to PublicComment@smud.org. Comments will be provided to the Board and placed into the record of the Committee meeting if it is received within two hours after the meeting ends.

Members of the public that are listening or watching the live stream of a Board meeting and wish to comment on a specific agenda item as it is being heard, may submit their comments, limited to 250 words or less, to

PublicComment@smud.org. The Board Chair may read the comments into the record, in his discretion, based upon such factors as the length of the agenda or the number of email comments received.

Comments will be provided to the Board and placed into the record of the Committee meeting if it is received within two hours after the meeting ends.

*Members of the public may register to provide verbal comments at an upcoming Board or Committee meeting by emailing a request to speak to PublicComment@smud.org. Please include the date of the meeting, name, and topic or agenda item the requestor wishes to speak on. The request may also be submitted while the meeting is in progress during the standard time for the agenda item or topic. **Pre-registration is strongly encouraged by no later than 3:00 p.m. on the day of the meeting.***

ADA Accessibility Procedures: Upon request, SMUD will generally provide appropriate aids and services leading to effective communication for qualified persons with disabilities so that they can participate equally in this virtual meeting. If you need a reasonable auxiliary aid or service for effective communication to participate, please email Toni.Stelling@smud.org, or contact by phone at (916) 732-7143, no later than 48 hours before this virtual meeting.

SSS No.
RS 22-001

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date Policy Committee February 9, 2022
Board Meeting Date February 17, 2022

TO					TO							
1.	Scott Martin				6.	Claire Rogers						
2.	Jennifer Davidson				7.							
3.	Stephen Clemons				8.							
4.	Brandy Bolden				9.	Legal						
5.	Farres Everly				10.	CEO & General Manager						
Consent Calendar		<input checked="" type="checkbox"/>	Yes	No <i>If no, schedule a dry run presentation.</i>		Budgeted		<input checked="" type="checkbox"/>	Yes	No <i>(If no, explain in Cost/Budgeted section.)</i>		
FROM (IPR) Alcides Hernandez					DEPARTMENT Revenue Strategy					MAIL STOP B356	EXT. 6397	DATE SENT 01/10/22
NARRATIVE:												
<p>Requested Action: Accept the monitoring report for Strategic Direction SD-2, Competitive Rates.</p> <p>Summary: As of December 31, 2021, SMUD is in compliance with the SD-2 Competitive Rates, continuing to have rates at least 18 percent below Pacific Gas & Electric Company's (PG&E's) system average rates and at least 10 percent below PG&E's published average rates for each customer class. As of December 31, 2021, SMUD's Energy Assistance Program Rate (EAPR) & EAPR/Medical Equipment Discount (MED) programs average rates were 34.0 percent below PG&E's average published California Alternate Rates for Energy (CARE) program.</p> <p>Board Policy: SD-2, Competitive Rates <i>(Number & Title)</i></p> <p>Benefits: As of December 31, 2021, SMUD system average rates are 37.0 percent below PG&E's system average rates.</p> <p>Cost/Budgeted: n/a</p> <p>Alternatives: n/a</p> <p>Affected Parties: n/a</p> <p>Coordination: Revenue Strategy</p> <p>Presenter: Alcides Hernandez, Manager, Revenue Strategy</p>												

<p>Additional Links:</p>

SUBJECT <div style="text-align: center;">Monitoring Report - SD-2, Competitive Rates</div>	ITEM NO. (FOR LEGAL USE ONLY)
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ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

SACRAMENTO MUNICIPAL UTILITY DISTRICT

OFFICE MEMORANDUM

TO: Board of Directors

DATE: February 1, 2022

FROM: Claire Rogers *CR 2/1/22*

**SUBJECT: Audit Report No. 28007420
Board Monitoring Report; SD-02: Competitive Rates**

Audit and Quality Services (AQS) received the SD-02 Competitive Rates 2021 Annual Board Monitoring Report and performed the following:

- A review of the information presented in the report to determine the possible existence of material misstatements;
- Interviews with report contributors and verification of the methodology used to prepare the monitoring report; and
- Validation of the reasonableness of a selection of the report's statements and assertions.

During the review, nothing came to AQS' attention that would suggest the SD Board Monitoring report did not fairly represent the source data available at the time of the review.

CC:

Paul Lau

Board Monitoring Report 2021

SD-2, Competitive Rates



1. Background

Strategic Direction 2, Competitive Rates states that:

Maintaining competitive rates is a core value of SMUD.

Therefore:

- a) The Board establishes a rate target of 18 percent below Pacific Gas & Electric Company's published rates on a system average basis. In addition, the Board establishes a rate target of at least 10 percent below PG&E's published rates for each customer class.
- b) SMUD's rates shall be competitive with other local utilities on a system average basis.
- c) In addition, SMUD's rates shall be designed to balance and achieve the following goals:
 - i) Reflect the cost of energy when it is used or exported to the SMUD grid;
 - ii) Reduce consumption during periods of high system demand;
 - iii) Encourage energy efficiency, conservation and carbon reduction;
 - iv) Encourage cost effective and environmentally beneficial Distributed Energy Resources (DERs) (examples of DERs include but are not limited to rooftop solar, battery storage, and energy reduction applications);
 - v) Minimize the rate of change in the transition from one rate design to another;
 - vi) Provide customers flexibility and choices;
 - vii) Be as simple and easy to understand as possible;
 - viii) Address the needs of people with low incomes and severe medical conditions; and
 - ix) Equitably allocate costs across and within customer classes.

2. Executive summary

a) **SMUD is in compliance with SD-2, Competitive Rates.**

As of December 31, 2021, SMUD's rates remain among the lowest in the state and on a system average rate basis are 37.0% below Pacific Gas & Electric (PG&E) Company's, which is better than the SD-2 target of at least 18% below on a system average rate basis. Residential average rates are at least 34.0% below PG&E's residential average rates. See Figure 1 for details.

There were two rate increases to SMUD's rates in 2021. Rates for all customers were increased by 2.5% on January 1, 2021 and 2% on October 1, 2021, as adopted by the Board on June 24, 2019. The overall rate advantage between SMUD and PG&E remains well above the SD-2 target of at least 18% on a system average basis.

Metric	2021 performance	2020 performance	5 year average
System average rates 18% below PG&E rates	37.0% below PG&E on a system average rate basis	35.7% below PG&E on a system average rate basis	34.9% below PG&E on a system average rate basis

2021 included several rate developments that balance the SD-2 requirements and help SMUD meet its 2030 Zero Carbon Goals, including Board approval of the new Solar and Storage Rate (SSR), commercial rate restructure implementation and an optional residential Critical Peak Pricing (CPP) rate. In addition, SMUD will implement storage incentives, a Virtual Power Plant program, and a Virtual Solar program for underserved communities.

The COVID-19 pandemic continued to impact the overall residential and commercial energy use for SMUD customers, with many residential customers continuing to work from home at least part time. Some commercial customers continue to have reduced consumption, while others have returned to pre-Covid levels. SMUD continues to support customers and provide options for managing bills, including securing \$41 million to be applied to unpaid bills.

The Time-of-Day (TOD) rate continues to encourage customers to shift load out of the 5 p.m. to 8 p.m. Peak time period and offers lower rates during the morning for those customers that are using more power during the day due to working from home. The commercial rate restructure approved by the Board in 2019 began implementation in October 2021, with the transition expected to be complete in the first quarter of 2022.

3) Additional supporting information

- a) **The Board establishes a rate target of 18% below PG&E's published rates on a system average basis. In addition, the Board establishes a rate target of at least 10% below PG&E's published rates for each customer class.**

SMUD continues to maintain average rates that are lower than PG&E's, both at a system level and by rate class. Figure 1 provides a detailed picture of the difference between SMUD's and PG&E's projected average rates by rate class in 2021 as well as the difference between rates in 2020.

Figure 1 – Summary of SMUD and PG&E Rate Comparison in \$/kWh

				Average Annual Rate		Difference	Difference
Customer		Rate Categories		PG&E	SMUD	Below PG&E*	Below PG&E*
Class	Description	PG&E	SMUD	2021	2021	2021	2020
Residential	Standard	E-1	R-TOD	\$0.2859	\$0.1700	-40.5%	-37.5%
	Low Income	CARE***	EAPR & EAPRMED**	\$0.1792	\$0.1183	-34.0%	-28.8%
All Residential				\$0.2483	\$0.1605	-35.4%	-31.0%
Small Commercial****	<= 20 kW	B-1	GFN/GSN_T	\$0.2804	\$0.1659	-40.8%	-41.8%
	21 - 299 kW	B-6	GSS_T	\$0.2614	\$0.1534	-41.3%	-43.3%
Medium Commercial****	300 - 499 kW	B-10	TOU-3	\$0.2439	\$0.1421	-41.7%	-43.6%
	500 - 999 kW	B-19	TOU-2	\$0.2102	\$0.1328	-36.8%	-39.4%
Large Commercial****	>= 1 MW	B-20	TOU-1	\$0.1602	\$0.1097	-31.5%	-35.8%
Lighting	Traffic Signals	TC-1	TS	\$0.2643	\$0.1312	-50.4%	-51.9%
	Street Lighting	various	SLS,NLGT	\$0.3031	\$0.1590	-47.5%	-51.2%
Agriculture	Ag & Pumping	AG	ASN/D,AON/D	\$0.2521	\$0.1463	-41.9%	-44.8%
System Average				\$0.2336	\$0.1472	-37.0%	-35.7%

Notes:

* Projected 2021 average prices for SMUD with rates effective 01-01-21 and 10-01-21. PG&E average prices in 2021 reflect rates effective 12/01/21, per Advice Letter 6415-E. The rate difference in year 2020 reflects PG&E average rates as of 10/1/20, per Advice Letter 5958-E dated 9/21/20, and SMUD rates effective 01-01-20 and 10-01-20.

** CARE vs EAPR includes EAPR & EAPRMED customers.

*** There is no indication from PG&E that their CARE rates include customers who have a medical allowance only.

**** Commercial rates include WAPA credits.

As seen in Figure 1, the rate competitiveness by class varies for the different customer classes and is at least 31.5% below comparable PG&E class average rates. Since the creation of this annual monitoring report in 2007, SMUD has consistently maintained rates that were more than 18% below PG&E. See Appendix A for more details.

b) SMUD's rates shall be competitive with other local utilities on a system average basis.

SMUD's system average rate is competitive with other local utilities as shown in detail in Appendix B.

c) Reflect the cost of energy when it is used or exported to the SMUD grid

SMUD's TOD and restructured commercial rates are designed to more closely reflect the cost of energy when it is used, with prices highest during the Peak time periods when the cost of energy is highest. In September 2021, the Board approved the new Solar and Storage Rate (SSR), which will go into effect March 1, 2022. SSR compensates energy sent to SMUD's grid at the value of solar rate of 7.4 cents per kWh, as supported in the 2020 value of solar + storage study.

d) Reduce consumption during periods of high system demand

Both the residential and commercial TOD rates send signals to customers to reduce their on-peak usage. The Peak time for residential customers is 5 p.m. to 8 p.m. while the Peak time for commercial customers under the restructured rates is 4 p.m. to 9 p.m. These Peak time periods reflect the highest \$/kWh to encourage customers to shift their energy usage outside of the Peak time period to reduce system load and help with carbon reduction goals.

In September 2021, the Board approved an optional residential CPP rate, which charges a premium on energy delivered during those few critical times during the summer with highest demand, which is expected to reduce energy consumption and carbon emissions when the grid is most stressed. Additionally, customers on the CPP rate will receive a discount on energy delivered during the summer Off-Peak and Mid-Peak time periods, encouraging them to shift their energy use to times when the grid is less stressed and clean energy is abundant.

e) Encourage energy efficiency, conservation, and carbon reduction

SMUD continues to encourage energy efficiency, conservation and carbon reduction through the residential and non-residential TOD rates and a variety of programs, such as incentives to install storage, and offering rebates for energy-efficient appliances and heating and cooling systems and energy-efficient LED lighting. TOD rates encourage customers to shift energy use from peak times when energy is more costly and is produced by a larger portion of carbon-emitting generation plants to off-peak times, when there is often excess carbon-free solar generation on our system. By shifting usage to times when non-carbon emitting resources are plentiful, customers not only save money, they also contribute to reducing carbon emissions and help SMUD achieve our carbon reduction goals. The residential and restructured commercial TOD rates were designed to be revenue neutral, so customers can save money if they shift or reduce their usage from peak hours. More detailed information about rebates and savings tips can be found on smud.org.

f) Encourage cost effective and environmentally beneficial Distributed Energy Resources (DERs) (examples of DERs include but are not limited to rooftop solar, battery storage, and energy reduction applications)

SSR was designed to work with a series of programs and incentives to help SMUD reach its 2030 Zero Carbon Plan. SMUD will be offering storage incentives to encourage customers to invest in storage, which could enable the customer to gain additional value from their investment. In addition to the storage incentives, the CPP rate will provide customers with solar and storage even more of an opportunity to increase the value of their system, by providing a significantly larger incentive to send power to the grid during critical events. The CPP rate will also encourage customers to adopt smart

thermostats, as they may be able to save money on the CPP rate if they use the thermostats to adjust their energy usage.

Customers that live in multi-family housing in historically underserved communities will be able to receive the benefits of solar through the Virtual Solar program. In the Virtual Solar program, the building owner may install solar and the benefits of that solar will be allocated to the residents, providing an avenue for customers to adopt solar even though they do not own their own home.

g) Minimize the rate of change in the transition from one rate design to another

SMUD follows this principle through gradualism and balance between rate implementation and customer satisfaction when making rate structure changes in combination with rate increases. For example, the commercial rate restructure will be phased in over an 8-year period in order to mitigate bill impacts. Likewise, the approved rate transition to the EAPR program was phased in over three years to minimize bill impacts to our low-income customers. Additionally, the implementation of the SSR rate was shifted from January to March 2022 to allow customers more time to adjust to the new rate. SSR was designed to minimize future transitions if the compensation rate adjusts – it will be adjusted every 4 years, and the adjustment is capped.

h) Provide customers flexibility and choices

SMUD provides flexibility and rate options to its customers. Residential customers may select custom due dates, budget billing, and net energy metering customers can choose between monthly or annual settlement options. Residential customers are placed on TOD, but they may select the fixed rate or the CPP rate, which will be available June 2022. All customers may make online payments and set up billing alerts. In addition, qualified commercial customers moving to SMUD's service area may choose between two different Economic Development Rate discount structures, selecting the option that best suits their needs. In the summer of 2022, SMUD will be testing a pilot commercial electric vehicle (EV) rate; the intent is to learn from the pilot and eventually develop a permanent optional EV rate to encourage EV adoption to support the 2030 Zero Carbon Plan goals.

Starting in 2022, SMUD will be offering three levels of incentives for customers to install storage. The amount of the incentives increase depending on which programs the customers decide to participate in. The smallest incentive is for customers that do not wish to participate in a program, the next highest for customers that want to participate in the CPP rate, and the highest incentive for customers that want to participate in the Virtual Power Plant program.

In an effort to better serve our customers during the COVID-19 pandemic, SMUD temporarily suspended disconnections and late fees for nonpayment. SMUD staff is working with customers to make arrangements to pay their bills through a variety of payment options and assistance programs.

i) Be as simple and easy to understand as possible

SMUD works to make sure its many programs and rates are simple and easy to understand. For example, staff designed the TOD rate and restructured commercial rates to balance simplicity while still reflecting the cost of energy when it is used. Significant ongoing customer outreach will assist customers in understanding the new rate designs. Another example is the approach staff used to develop the new Virtual Solar Program for underserved communities. The program is very simple and easy to manage compared to the very complex billing mechanics from the prior Virtual Net Energy Metering programs.

j) Address the needs of people with low incomes and severe medical conditions

SMUD continues to address the needs of people with low incomes and severe medical conditions. The restructured EAPR program has improved the assistance that we offer to our customers most in need by basing assistance on federal poverty level.

In an effort to better serve our customers during the COVID-19 pandemic, SMUD temporarily suspended disconnections and late fees for nonpayment. Late fees are expected to resume February 2022 and disconnections are expected to resume March 2022. SMUD staff is working with customers to make arrangements to pay their bills through a variety of payment options and assistance programs. SMUD secured \$41M in California Arrearage Payment Program (CAPP) funding that was applied to customers' unpaid bills in November, to support customers amid the ongoing challenges of COVID-19 pandemic. Additionally, and as described earlier, SMUD will be offering a new Virtual Solar Program for underserved communities.

k) Equitably allocate costs across and within customer classes

To ensure costs are equitably allocated across and within customer classes, staff updates SMUD's marginal cost study and performs rate costing studies and value of solar studies prior to recommending rate structure changes, such as with TOD, the commercial rate restructure and the Solar and Storage Rate (SSR).

4) Challenges

Rate Pressures

While SMUD has been able to keep rates low, SMUD does face cost pressures going forward from both known and unknown drivers. Despite these cost pressures, SMUD's goal is to keep rate increases at or below the rate of inflation through 2030. Examples of known cost drivers include:

1. Wildfire mitigation, including the increased cost of wildfire insurance and additional vegetation management,
2. Increased costs for SMUD labor and benefits, as well as costs for materials, goods and services,
3. New and enhanced technology solutions to support cyber security, customer experience, and distributed energy resources

SMUD also must be prepared to weather unknown cost drivers. Examples of these drivers include the costs related to the COVID-19 pandemic, additional requirements stemming from new legislation in response to the wildfires in recent years, or potentially new mandates to achieve California environmental goals.

5) Recommendation

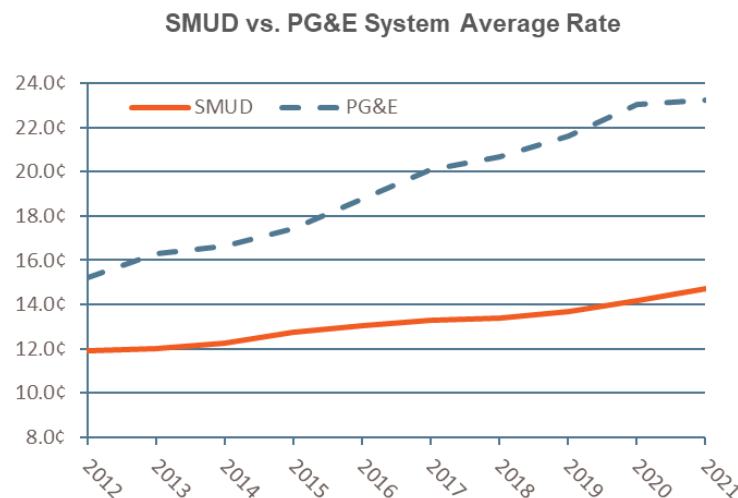
It is recommended that the Board accept the Monitoring Report for SD 2, Competitive Rates.

Appendices

Appendix A: Historical Rate Comparison with PG&E

Figure 2 compares SMUD and PG&E's system average rates for the past 10 years. SMUD's system average rates have averaged 31.3% below PG&E's since 2012.

Figure 2 – SMUD and PG&E Historical System Average Rate Comparison



Appendix B: Local Utility Rates

- **Modesto Irrigation District (MID):** MID has not had a rate increase since 2012. Their Environmental Energy Adjustment is currently \$0.0079/kWh. MID recently adopted a pilot residential TOU rate for Electric Vehicle customers which has a fixed charge of \$30.00 per month as well as three time periods summer and two for winter that differ in price by season. MID also instituted a grid access charge for NEM customers who install above 1 MW of solar capacity.

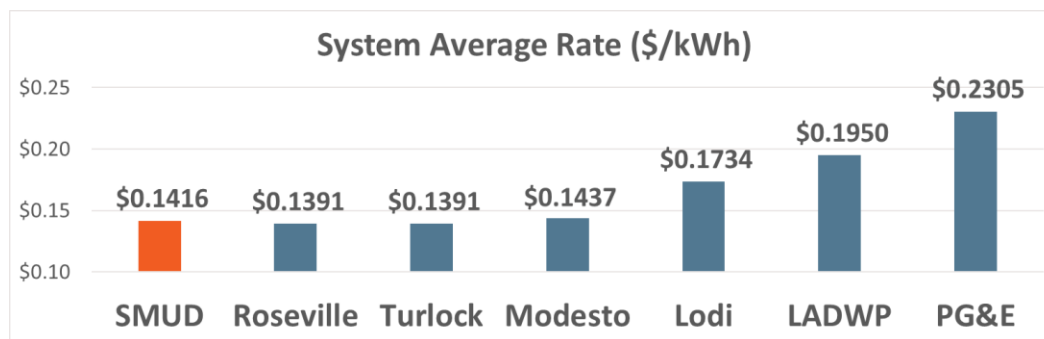
MID is currently in rate litigation. A class action lawsuit challenging MID's electric rates, *Hobbs v. Modesto Irrigation District* filed in March 2016, alleges that MID uses funds collected from electric customers to subsidize its water operations and, as a result, amounts collected and applied for electric service exceed the costs to MID of providing that service and constitute a tax on its electric customers requiring voter approval under Proposition 26, and seeks refunds of the alleged illegal taxes. MID disagrees with the plaintiffs' contention that costs of its water operations are funded from electric rates and is vigorously defending the *Hobbs* action.

- **Turlock Irrigation District (TID):** TID has not had a rate increase since 2015 and there is no plan to modify rates in 2021. TID does have a pass-through charge that adjusts with costs, outside of any rate increases.
- **Roseville Electric:** Roseville Electric approved a 2.6% rate increase effective January 1, 2022 and another 2.8% rate increase effective January 1, 2023. Roseville has pass-through charges that adjust with costs, outside of any rate increases. Their Hydroelectric Adjustment charge will be in effect from September 2021 through June 2022 at a rate of \$0.00507/kWh.

- **Lodi Electric:** Lodi did not change their base rates in 2021 and they do not have any changes forecasted for 2022. Lodi has a monthly energy cost adjustment that adjusts as power costs increase or decrease. The range of the energy cost adjustment for 2021 was -\$0.0158/kWh to \$0.0503/kWh.
- **Los Angeles Department of Water and Power (LADWP).** LADWP did not have a rate increase in fiscal year 2020-2021 or 2021-2022. LADWP does have a pass-through charge that adjusts with costs, outside of any rate increases.

While many of SMUD's neighboring utilities have not raised rates recently, SMUD's system average rate is still competitive, as shown in Figure 3. Figure 3 uses data from the U.S. Energy Information Administration and 2020 is the most recent data available.

Figure 3 – 2020 Utility System Average Rate Comparison



Including pass-through mechanisms in rates is a common utility practice, allowing utilities to collect enough revenue to cover their costs without having to increase rates in a formal rate proceeding. SMUD has the Hydro Generation Adjustment, which allows for a small additional charge on customer bills in the event of less than median precipitation. Figure 4 details the pass-through mechanisms some of SMUD's neighboring utilities have as part of their rate structures.

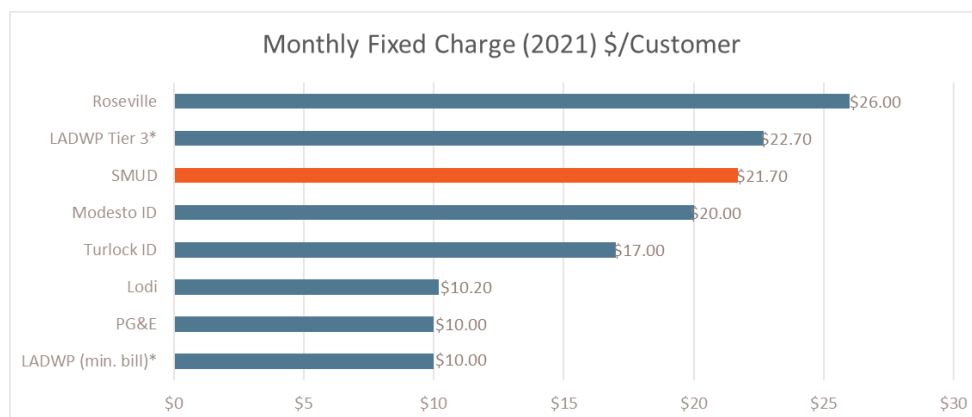
Figure 4 – Utility Pass-through Mechanisms

Utility	Pass through
SMUD	Hydroelectric Generation Adjustment
Modesto Irrigation District	Capital Infrastructure Adjustment
	Environmental Energy Adjustment
	Power Supply Adjustment
Turlock Irrigation District	Environmental Charge
	Public Benefits Surcharge
	Renewable Energy Surcharge
Roseville Electric	Greenhouse Gas Surcharge
	Hydroelectric Adjustment
	Energy Cost Adjustment
Lodi Electric	Energy Cost Adjustment
	Electric Subsidy Adjustment
	Reliability Cost Adjustment

* LADWP has other adjustments to reflect approved rate increase

Including a fixed charge amount on residential customers bills is also a common utility practice. The fixed charge allows for revenue collection for fixed assets that do not vary with electricity consumption. Figure 5 below outlines the fixed charge amount of SMUD's neighboring utilities.

Figure 5 – Monthly Fixed Charge Amount



* Roseville Electric's customer charge will increase to \$28 in 2022 and \$30 in 2023.

** LADWP's Tier 1 fixed charge is \$2.30 and Tier 2 fixed charge is \$7.90 but they have a minimum bill of \$10 per month.

Appendix C: PG&E Updates

Overview of PG&E's recent rate proceedings

In 2021 PG&E had four rate changes, increasing the system average rate in \$/kWh from \$0.2155 in 2020 to \$0.2336 in 2021 as shown in Figure 6.

Figure 6 – PG&E 2020-2021 Rate Changes

	PG&E Rate Changes in 2020 ⁽¹⁾				Annual	PG&E Rate Changes in 2021 ⁽¹⁾				Annual
	January	March	May	October	2020	January	March	August	December	2021
Rate Change (%)	2.10%	0.05%	3.43%	0.26%	5.9%	0.10%	2.80%	0.30%	0.50%	3.73%
System Rate (\$/kWh)	\$0.2155	\$0.2156	\$0.2217	\$0.2223		\$0.2255	\$0.2319	\$0.2325	\$0.2336	

(1) Includes California Climate Credit

PG&E Rate Increase Process

Every three to four years PG&E files a request with California Public Utilities Commission (CPUC) with their proposed rate increases. The CPUC will then either accept or modify the rate increases for those years. 50% of the requested revenue increases for 2023 through 2026 is for wildfire reduction work, including vegetation management programs. The following rate increases have been approved or proposed:

- 2022 – 4.85% (approved)
- 2023 – 9.6% (proposed)
- 2024 – 2.4% (proposed)
- 2025 – 1.9% (proposed)
- 2026 – 1.5% (proposed)

Additionally, PG&E does a “true-up” at the end of each year to adjust their revenue to match their costs. For instance, if their costs for the year exceeded their projected revenue, they will increase their rates to compensate. For their 2022 true-up, PG&E raised rates 7.5 percent on average for bundled customers (customers receiving full electric service from PG&E), and 10.3 percent on average for Community Choice Aggregation (CCA) customers. These rate increases did not include costs associated with the increase in generation costs, which will go into effect later in 2022.

PG&E Residential Time-of-Use Rate Transition

PG&E began transitioning residential customers to a default time-of-use rate (E-TOU-C) in 2020 and will continue transitioning customers in waves through April 2022. The standard E-TOU-C rate has a peak time period from 4 to 9 p.m. every day. Customers may choose from a selection of alternative rates, including an optional E-TOU-D (5-8 p.m.) rate which has a shorter 3-hour Peak time period during weekdays only.

Appendix D: Historical Rate Increases

Figure 7 shows that SMUD’s historical rate increases have tracked the Consumer Price Index (CPI) over the past 20 years. Figure 8 shows SMUD’s rate increases by year since 2000.

Figure 7 – Annual Rate Increase vs CPI

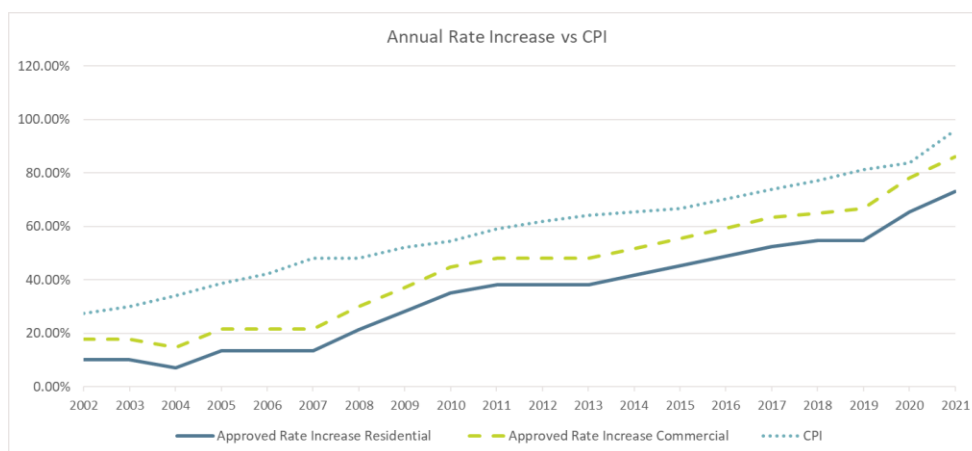


Figure 8 – Residential vs. Non-Residential Rate Increase and Energy Surcharge by Year

Year	Rate Increase		Energy Surcharge
	Residential	Non-Residential	
2000	0.00%	0.00%	N/A
2001	13.00%	21.00%*	N/A
2002	0.00%	0.00%	-2.60%
2003	0.00%	0.00%	N/A
2004	0.00%	0.00%	-2.70%
2005	6.00%	6.00%	N/A
2006	0.00%	0.00%	N/A
2007	0.00%	0.00%	N/A
2008	7.00%	7.00%	N/A
2009	5.50%	5.50%	N/A
2010	5.50%	5.50%	N/A
2011	2.25%	2.25%	N/A
2012	0.00%	0.00%	N/A
2013	0.00%	0.00%	N/A
2014	2.50%	2.50%	N/A
2015	2.50%	2.50%	N/A
2016	2.50%	2.50%	N/A
2017	2.50%	2.50%	N/A
2018	1.50%	1.00%	N/A
2019	0.00%	1.00%	N/A
1/1/2020	3.75%	3.75%	N/A
10/1/2020	3.00%	3.00%	N/A
1/1/2021	2.50%	2.50%	N/A
10/1/2021	2.00%	2.00%	N/A
3/1/2022	1.50%	1.50%	N/A
1/1/2023	2.00%	2.00%	N/A

* Medium Commercial, Agricultural and Lighting rates increased by 16%

SSS No.
TR22-001

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date Policy Committee - 02/09/22
Board Meeting Date February 17, 2022

TO					TO								
1.	Claire Rogers				6.								
2.	Jennifer Davidson				7.								
3.	Stephen Clemons				8.								
4.	Brandy Bolden				9.	Legal							
5.	Farres Everly				10.	CEO & General Manager							
Consent Calendar		X	Yes	No If no, schedule a dry run presentation.		Budgeted			Yes	X	No (If no, explain in Cost/Budgeted section.)		
FROM (IPR) Russell Mills					DEPARTMENT Treasury					MAIL STOP B355		EXT. 6509	
										DATE SENT 1/13/22			

NARRATIVE:

Requested Action: Accept the monitoring report for **Strategic Direction SD-3, Access to Credit Markets.**

Summary: With SD-3, the Board established that maintaining access to credit markets is a core value for SMUD. Pursuant to this direction, the Board has set certain financial targets, financial considerations, and minimum credit ratings for SMUD to maintain. This annual report outlines the importance of these SD-3 requirements and provides evidence of SMUD's compliance during 2021.

Board Policy: SD – 3 - Access to Credit Markets
(Number & Title)

Benefits: To demonstrate to the Board SMUD's progress in complying with SD-3.

Cost/Budgeted: N/A

Alternatives: N/A

Affected Parties: N/A

Coordination: Treasury

Presenter: Russell Mills, Director of Risk Management & Treasurer

Additional Links:

SUBJECT

Annual Monitoring Report for SD-3 Access to Credit Markets

ITEM NO. (FOR LEGAL USE ONLY)

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

SACRAMENTO MUNICIPAL UTILITY DISTRICT

OFFICE MEMORANDUM

TO: Board of Directors

DATE: February 1, 2022

FROM: Claire Rogers *CR 2/1/22*

**SUBJECT: Audit Report No. 28007421
Board Monitoring Report; SD-03: Access to Credit Markets**

Audit and Quality Services (AQS) received the SD-03 *Access to Credit Markets* 2021 Annual Board Monitoring Report and performed the following:

- A review of the information presented in the report to determine the possible existence of material misstatements;
- Interviews with report contributors and verification of the methodology used to prepare the monitoring report; and
- Validation of the reasonableness of a selection of the report's statements and assertions.

During the review, nothing came to AQS' attention that would suggest the SD Board Monitoring report did not fairly represent the source data available at the time of the review.

CC:

Paul Lau

Board Monitoring Report 2021

SD-3 Board Strategic Direction on Access to Credit Markets



1. Background

Strategic Direction 3 on Access to Credit Markets states that:

Maintaining access to credit is a core value of SMUD.

Therefore:

- a. For SMUD's annual budgets, the Board establishes a minimum target of cash coverage of all debt service payments (fixed charge ratio) of 1.50 times.
- b. When making resource decisions, SMUD shall weigh the impacts on long-term revenue requirements, debt, financial risk and flexibility.
- c. SMUD's goal is to maintain at least an "A" rating with credit rating agencies.

2. Executive summary

SMUD relies on the use of borrowed funds to pay for a portion of its capital needs on an ongoing basis. The Board adopted SD-3, Access to Credit Markets, to help ensure that SMUD maintains the ability to raise new money at competitive rates in the credit markets as needed. Making prudent use of borrowed funds to finance capital improvements can help SMUD to mitigate major rate adjustments in periods of intensive capital expansion, and allows SMUD to allocate the costs of those improvements over their useful lives to the customers who benefit from them. Maintaining access to credit markets supports our objective to be financially flexible to make necessary and timely investment and take advantage of opportunities while remaining competitive.

One of the most important indicators of an organization's ability to access credit markets is the independent assessment made by credit rating agencies. SMUD is rated by the three major rating agencies: Standard & Poor's (S&P), Moody's, and Fitch, which review SMUD's credit on approximately an annual basis. The credit ratings assigned are intended to give investors the rating agency's view of the likelihood that SMUD will pay principal and interest on bonds when due. They utilize financial metrics in assessing creditworthiness such as the Fixed Charge Ratio that measures revenue sufficiency to meet obligations, and Days Cash on Hand, a measure of liquidity. They also measure leverage, such as our debt outstanding per customer, and the rate capacity to finance future capital projects without placing undue burden on customers. SMUD's overall governance and risk management

practices are also important to the agencies, along with the ability and willingness to raise rates when necessary while maintaining competitive low-cost energy for our customers.

As referenced in the attached ratings agency reports, SMUD has very strong metrics and due to well managed cash flow, has the ability to plan to a more modest fixed charge ratio relative to some other AA rated peers. The most recent SMUD credit reports from both S&P and Fitch also specifically cite the Board's demonstrated willingness to raise rates to support financial performance.

Credit ratings heavily impact an organization's ability to borrow money in the municipal markets, as well as the interest rates they will be required to pay. Higher credit ratings translate into lower borrowing costs. For example, if SMUD's credit ratings were to fall into a lower category, from AA to A, the impact at today's rates would be approximately \$200k/year for every \$100 million borrowed. During a period of financial turmoil, as experienced in early 2020, higher credit ratings allowed SMUD to access credit markets sooner than lower rated utilities.

Credit ratings also impact an organization's ability to conduct general business transactions. Trading partners utilize credit ratings as a factor in assessing their willingness to transact with SMUD, and to determine commercial terms. Stronger credit ratings enable SMUD to negotiate better terms and conditions for contracts, including power purchase agreements. For example, SMUD's healthy credit ratings minimize the amount of collateral posting required under many of its commodity contracts to hedge natural gas and power. Likewise, if SMUD's ratings were to drop from current levels, collateral posting requirements would increase accordingly. In some cases, a reduction in SMUD's credit ratings below a certain threshold gives our counterparty the right to terminate the contract.

In support of maintaining its financial strength and as a financial risk mitigator SMUD procures insurance. SMUD maintains a comprehensive property and casualty insurance program, with coverage in excess of various self-insured retentions ranging from \$5,000 to \$5,000,000, designed to protect against catastrophic losses that would have an adverse effect on its financial position or operational capabilities. Insurance programs are continuously reviewed and modified when construction, operational exposures, or developments in the insurance industry so warrant. Long term relationships with a variety of insurers minimize SMUD's susceptibility to the effects of insurance market cycles. SMUD budgets reserves to meet potential insurance deductibles and self-insured liability claims and has had no claims that have exceeded coverage limits.

SMUD has remained in compliance with SD-3 as evidenced by the following:

- a. Maintained key financial metrics, including a fixed charge ratio above the minimum policy target of 1.50 times.
 - 1. 2.17 times in 2020
 - 2. 2.42 times in 2021 (draft figure as of January 19, 2022)
 - 3. 1.93 times in 2022 (projected in 2022 Budget)
- b. Credit ratings were affirmed at 'AA' from S&P and Fitch, and Aa3 from Moody's, which is equivalent to AA-.
- c. Successful refunding of the remaining 2011 series X bonds with the issuance of \$107 million of 2021 Series I Electric Revenue Bonds. This refunding transaction took advantage of lower interest rates and SMUD's strong credit ratings to lock in \$3 million in savings per year from 2022 to 2028, for a total net present value savings of \$23 million. This transaction highlights our ability to access credit markets as a result of managing SMUD in a manner that invokes confidence from investors.
- d. Successfully renewed and restructured SMUD's \$400 million commercial paper program into a \$300 million commercial paper capacity with a \$100 million emergency line of credit. This process which is in its final stages will ensure SMUD's continued financial strength by providing quick access to financial resources and the ability to access the funding without having the markets open. In 2020 during the early days of COVID-19, commercial paper markets for all issuers froze temporarily. The line of credit will allow access to capital if that were to occur again. The RFP results provide for lower rates than the previous facilities and when finalized, will save SMUD about \$0.5 million annually.
- e. Made \$101 million in additional supplemental contributions to CalPERS as part of a 10-year pension funding strategy to eliminate our unfunded pension liability—an obligation rating agencies are increasingly focusing on in their reviews. Addressing the unfunded liability sooner will help control rate increases. These costs would continue to grow into the future since paying only the required minimum payments may not fully mitigate the compounding nature of the outstanding liability adequately. Prior to these additional contributions, SMUD's Other Post-Employment Benefits (OPEB) and Pension were of 113% and 79% funded, respectively.

- f. Successfully renewed property and casualty insurance coverage programs at or below market rates and expanded coverage for the cyber insurance program. Despite the continued constrained insurance market and record-setting wildfire losses in the Western United States, SMUD was able to maintain its \$250 million wildfire liability insurance program within which SMUD's self-insured retentions decreased from an aggregate of \$77 million to \$74 million. SMUD also successfully increased cyber coverage limits from \$40 million to \$60 million.

3. Additional supporting information

Details on ratings variables, SMUD specific credit strengths, factors that could lead to an upgrade, and insurance are listed below

Financial Strengths:

Maintaining SMUD's financial strength is a key component to continually accessing credit markets. Below is a list of SMUD specific financial strengths mentioned in recent rating agency reports:

- a. Strong financial operations management
- b. Strong financial performance with fixed charge ratio over 1.8x during the last 5 years
- c. Robust liquidity
- d. Low operating costs
- e. Competitive rates
- f. Diverse resource portfolio
- g. Favorable debt and liabilities profile
- h. Proactive planning and hedging practices
- i. Timely rate setting record
- j. Strong wildfire mitigation toolkit

Ratings Variables:

The rating agencies evaluate a number of factors in deriving municipal power ratings. These include:

- k. Financial ratios and metrics
- l. Governance Structure and Management
- m. Rate Competitiveness
- n. Cost of production/purchased power (particularly with respect to higher cost renewables)
- o. Risk Management Practices
- p. Service area demographics
- q. Regulatory factors

4. Challenges:

Below are comments from recent rating's agency reports regarding challenges to SMUD's financial strength that could affect SMUD's ability to access credit markets:

- a. Wildfire liability and inverse condemnation exposure
- b. More significant capital spending affecting rate competitiveness and key financial metrics
- c. Substantially weakened competitive position or impaired ability to maintain liquidity and achieve fixed charge ratios commensurate with recent years' levels
- d. Prioritizing environmental goals or rate affordability over preservation of the financial profile

5. Recommendation:

It is recommended that the Board accept the Monitoring Report for SD-3 Board Strategic Direction on Access to Credit Market.

SSS No.

E,S,RES – 22-01

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date

Policy Committee - 02/09/22

Board Meeting Date

N/A

TO					TO				
1.	Frankie McDermott				6.				
2.	Jennifer Davidson				7.				
3.	Brandy Bolden				8.				
4.	Farres Everly				9.	Legal			
5.	Stephen Clemons				10.	CEO & General Manager			

Consent Calendar		Yes	<input checked="" type="checkbox"/>	No <i>If no, schedule a dry run presentation.</i>	Budgeted	<input checked="" type="checkbox"/>	Yes	No <i>(If no, explain in Cost/Budgeted section.)</i>
FROM (IPR)				DEPARTMENT	MAIL STOP			EXT.
Patrick Durham				Environmental, Safety, and Real Estate Services	B209			6327
								02/ 19/22

NARRATIVE:

Requested Action: Brief the Board on SMUD's development of a Land Acknowledgement Statement (LAS).

Summary: Staff is developing a Land Acknowledgement Statement (LAS) in recognition that the areas in which SMUD operates were previously occupied by Native American Tribes and that the Tribes are still present in our community. Development of a LAS was shared during the 2021 monitoring report presentation for Strategic Direction SD-7, Environmental Leadership (SD-7), and this presentation provides an update on the progress staff has made and the strategy for the continued development of the LAS. The presentation will focus on LAS team educational efforts, tribal consultation, and milestones for completion which is anticipated during the second quarter of this year.

Board Policy: Strategic Direction SD-7, Environmental Leadership
(Number & Title)

Benefits: A LAS is the next step in SMUD's continued work with Native American Tribes in our region. SMUD's recent coordination with Native American Tribes was initiated through the California Environmental Quality Act (CEQA) and has helped facilitate Tribal support on SMUD Projects (like Station H). Continued work with the Tribes through the development of a LAS will help demonstrate SMUD's commitment to Diversity, Equity and Inclusion both within SMUD and in our communities.

Cost/Budgeted: \$75,000

Alternatives: Postpone development of a LAS until a later time.

Come back to the Board at a future time to seek approval of the LAS, after it has been developed by staff (without a mid-process update).

Affected Parties: All of SMUD operations

Coordination: Executive Office, Environmental, Safety & Real Estate Services, Diversity, Equity & Inclusion

Presenter: Patrick Durham, Director, Environmental & Real Estate Services

Additional Links:

SUBJECT

Land Acknowledgement Statement

ITEM NO. (FOR LEGAL USE ONLY)

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

SSS No.
BOD 2022 - 001

BOARD AGENDA ITEM STAFFING SUMMARY SHEET

Committee Meeting & Date
Policy Committee – 02/09/22
Board Meeting Date
N/A

TO					TO				
1.	Jennifer Davidson				6.				
2.	Stephen Clemons				7.				
3.	Brandy Bolden				8.				
4.	Farres Everly				9.	Legal			
5.					10.	CEO & General Manager			

Consent Calendar		Yes	X	No If no, schedule a dry run presentation.	Budgeted	X	Yes	No (If no, explain in Cost/Budgeted section.)		
FROM (IPR)				DEPARTMENT				MAIL STOP	EXT.	DATE SENT
Dave Tamayo / Donna Lofton				Board Office				B307	5079	1/26/2022

NARRATIVE:

Requested Action: Review the results of the 2022 Board Survey and Assessment.

Summary: The Board requested consultant, Eric Douglas, to conduct an assessment of the Board. The Board has done similar assessment surveying since 2002. This presentation at the Policy Committee meeting is an opportunity for the consultant to share with the Board the recently assembled results of the 2022 survey.

Board Policy: In paragraph (d) of GP-2 Governance Focus, it says the Board will regularly discuss and evaluate its performance. This requested action supports the Board's desire to assess its performance.
(Number & Title)

Benefits: Having the Directors review their performance can lead to a stronger, more effective Board of Directors.

Cost/Budgeted: Costs contained in consultant's contract.

Alternatives: Not review the survey results at this meeting.

Affected Parties: Board of Directors and Executive Staff

Coordination: Special Assistant to the Board

Presenter: Eric Douglas, Board Consultant

Additional Links:

SUBJECT	Board Survey and Assessment Results	ITEM NO. (FOR LEGAL USE ONLY)
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ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

SSS No.

BOD 2021-021

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date

February 9, 2022

Board Meeting Date

2022

TO					TO				
1.	Jennifer Davidson				6.				
2.	Stephen Clemons				7.				
3.	Brandy Bolden				8.				
4.	Farres Everly				9.	Legal			
5.					10.	CEO & General Manager			

Consent Calendar		Yes	x	No If no, schedule a dry run presentation.	Budgeted		Yes	No (If no, explain in Cost/Budgeted section.)		
FROM (IPR)				DEPARTMENT				MAIL STOP	EXT.	DATE SENT
Brandon Rose / Donna Lofton				Board Office				B307	5079	12/21/2021

NARRATIVE:

Requested Action:	Enable the Board of Directors and Executive Staff an opportunity to review the Board Work Plan.								
Summary:	The Board President reviews the Board Work Plan at the Policy Committee meeting to ensure agenda items support the work of the Board.								
Board Policy: <i>(Number & Title)</i>	This review of the work plan supports GP-6 Role of the Board President which states that the Board President shall give progress reports on the Board's work plan.								
Benefits:	Reviewing the Work Plan allows the Board members and Executive staff to make changes to the Work Plan and Parking Lot items as necessary.								
Cost/Budgeted:	N/A								
Alternatives:	Not review the Work Plan at this time								
Affected Parties:	Board and Executive staff								
Coordination:	Donna Lofton								
Presenter:	Brandon Rose, Board President								

Additional Links:

SUBJECT	Board Work Plan	ITEM NO. (FOR LEGAL USE ONLY)
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ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

SSS No.
BOD 2021-022

BOARD AGENDA ITEM STAFFING SUMMARY SHEET

Committee Meeting & Date
POLICY 2022
Board Meeting Date
N/A

TO				TO						
1.	Jennifer Davidson			6.						
2.	Stephen Clemons			7.						
3.	Brandy Bolden			8.						
4.	Farres Everly			9.	Legal					
5.				10.	CEO & General Manager					
Consent Calendar		Yes	x	No If no, schedule a dry run presentation.		Budgeted	Yes	No (If no, explain in Cost/Budgeted section.)		
FROM (IPR) Dave Tamayo / Donna Lofton				DEPARTMENT Board Office				MAIL STOP B307	EXT. 5079	DATE SENT 12/21/2021

NARRATIVE:

Requested Action: A summary of directives provided to staff during the committee meeting.

Summary: The Board requested an on-going opportunity to do a wrap up period at the end of each committee meeting to summarize various Board member suggestions and requests that were made at the meeting in an effort to make clear the will of the Board. The Policy Committee Chair will summarize Board member requests that come out of the committee presentations for this meeting.

Board Policy: GP-4 Agenda Planning states the Board will focus on the results the Board wants the organization to achieve.
(Number & Title)

Benefits: Having an agendaized opportunity to summarize the Board's requests and suggestions that arise during the committee meeting will help clarify what the will of the Board.

Cost/Budgeted: N/A

Alternatives: Not summarize the Board's requests at this meeting.

Affected Parties: Board of Directors and Executive Staff

Coordination: Donna Lofton, Special Assistant to the Board

Presenter: Dave Tamayo, Policy Committee Chair

Additional Links:

SUBJECT

Summary Of Committee Direction

ITEM NO. (FOR LEGAL USE ONLY)

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.