

Board Policy Committee Meeting and Special SMUD Board of Directors Meeting

Date: Tuesday, February 6, 2024

Time: Immediately following the Strategic Development
Committee meeting scheduled to begin at 6:00 p.m.

Location: SMUD Headquarters Building, Auditorium
6201 S Street, Sacramento, CA

AGENDA

BOARD POLICY COMMITTEE MEETING

AND SPECIAL SMUD BOARD OF DIRECTORS MEETING

Tuesday, February 6, 2024

SMUD Headquarters Building, Auditorium

6201 S Street, Sacramento, California

Scheduled to begin immediately following the Strategic Development Committee and Special SMUD Board of Directors Meeting scheduled to begin at 6:00 p.m.

This Committee meeting is noticed as a joint meeting with the Board of Directors for the purpose of 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:

Virtual Viewing or Attendance:

Live video streams (view-only) and indexed archives of meetings are available at:

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

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

Webinar/Meeting ID: 160 525 2805

Passcode: 196615

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

Verbal Public Comment:

Members of the public may provide verbal public comment by:

- Registering in advance of a meeting by sending an email to PublicComment@smud.org, making sure to include the commenter's name, date of the meeting, and topic or agenda item for comment. Microphones will be enabled for virtual or telephonic attendees at the time public comment is called and when the commenter's name is announced.
- Completing a sign-up form at the table outside of the meeting room and giving it to SMUD Security.
- Using the "Raise Hand" feature in Zoom (or pressing *9 while dialed into the telephone/toll-free number) during the meeting at the time public comment is called. Microphones will be enabled for virtual or telephonic attendees when the commenter's name is announced.

Written Public Comment:

Members of the public may provide written public comment on a specific agenda item or on items not on the agenda (general public comment) by submitting comments via email to PublicComment@smud.org or by mailing or bringing physical copies to the meeting. Comments will not be read into the record but will be provided to the Board and placed into the record of the meeting if received within two hours after the meeting ends.

DISCUSSION ITEMS

1. Alcides Hernandez Discuss the monitoring report for **Strategic Direction SD-2, Competitive Rates**.
Presentation: 10 minutes
Discussion: 5 minutes

2. Russell Mills Discuss the monitoring report for **Strategic Direction SD-3, Access to Credit Markets**.
Presentation: 10 minutes
Discussion: 10 minutes

INFORMATIONAL ITEMS

3. Rosanna Herber Board Work Plan.
Discussion: 5 minutes

4. Public Comment

5. Dave Tamayo Summary of Committee Direction.
Discussion: 1 minute

Members of the public shall have up to three (3) minutes to provide public comment on items on the agenda or items not on the agenda, but within the jurisdiction of SMUD. The total time allotted to any individual speaker shall not exceed nine (9) minutes.

Members of the public wishing to inspect public documents related to agenda items may click on the Information Packet link for this meeting on the smud.org website or may call 1-916-732-7143 to arrange for inspection of the documents at the SMUD Headquarters Building, 6201 S Street, Sacramento, California.

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 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 1-916-732-7143, no later than 48 hours before this meeting.

SSS No. CSO 24-001

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date Policy Committee – 02/06/24
Board Meeting Date February 15, 2024

TO				TO				
1.	Claire Rogers	6.						
2.	Scott Martin	7.						
3.	Brandy Bolden	8.						
4.	Farres Everly	9.	Legal					
5.	Suresh Kotha	10.	CEO & General Manager					
Consent Calendar	x Yes	No <i>If no, schedule a dry run presentation.</i>		Budgeted	x 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

NARRATIVE:

Requested Action: Accept the monitoring report for Strategic Direction SD-2, Competitive Rates.

Summary: As of December 31, 2023, 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, 2023, SMUD’s Energy Assistance Program Rate (EAPR) & EAPR/Medical Rate Discount (MED) programs average rates were 48.6 percent below PG&E’s average published California Alternate Rates for Energy (CARE) program.

Board Policy: Strategic Direction SD-2, Competitive Rates
(Number & Title)

Benefits: As of December 31, 2023, SMUD system average rates are 50.1 percent below PG&E’s system average rates.

Cost/Budgeted: Costs contained in internal labor budget.

Alternatives: Provide to the Board via memo or written report.

Affected Parties: All SMUD Departments and Customers

Coordination: Revenue Strategy

Presenter: Alcides Hernandez, Manager, Revenue Strategy

Additional Links:

SUBJECT Accept SD-2 Monitoring Report	ITEM NO. <i>(FOR LEGAL USE ONLY)</i>
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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: January 24, 2024

FROM: Claire Rogers *CR 1/24/24*

**SUBJECT: Audit Report No. 28007740
Board Monitoring Report; SD-02: Competitive Rates**

Internal Audit Services (IAS) received the SD-02 *Competitive Rates* 2023 Annual Board Monitoring Report and performed the following:

- Selected a sample of statements and assertions in the report for review.
- Interviewed report contributors and verified the methodology used to prepare the statements in our sample.
- Validated the reasonableness of the statements in our sample based on the data or other support provided to us.

During the review, nothing came to IAS' attention that would suggest the items sampled within 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 2023 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, 2023, SMUD's rates remain among the lowest in the state and on a system average rate basis are 50.1% 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 46.8% below PG&E's residential average rates. See Figure 1 below for details.

There was one rate increase to SMUD's rates in 2023. Rates for all customers were increased by 2% on January 1, 2023, as adopted by the Board on September 16, 2021. 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	2023 performance	2022 performance	5 year average
System average rates 18% below PG&E rates	50.1% below PG&E on a system average rate basis	45.5% below PG&E on a system average rate basis	40.9% below PG&E on a system average rate basis

2023 marked the continuation of several rate developments that balance the SD-2 requirements and help SMUD maintain our critical financial performance and metrics. In September, the Board approved Rate Resolution 23-09-09 which will allow SMUD to continue to meet California mandates, while addressing the impacts of the current economy and inflation. Despite these rate changes SMUD anticipates continuing to meet SD2 requirements in the future.

In September 2023 the board approved four 2.75% rate increases through 2025 with the first rate increase going into effect on January 1, 2024. These approved increases are, on average, lower than those of other electric utilities in the state of California. These increases are driven by commodity price increases, compliance requirements and inflation, among other things as described in Section 4 below.

The 2023 Rate Process also established the EAPR Stabilization Fund, which will provide an additional discount to those low-income customers that are in the greatest need. The fund will be maintained on an annual basis using discretionary, non-retail rate revenue, as to not have an impact on any future required rate changes.

The Time-of-Day (TOD) rate continues to encourage residential customers to shift usage out of the 5 p.m. to 8 p.m. peak time-period. On average, TOD rates deliver approximately 86-126MW of reduced load during SMUD’s system peak.

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 average rates by rate class in 2023 as well as the difference between rates in 2022.

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

Customer		Rate Categories		Average Annual Rate		Difference Below PG&E*	Difference Below PG&E*	Difference Above SMUD
				PG&E	SMUD			
Class	Description	PG&E	SMUD	2023	2023	2023	2022	2023
Residential	Standard	E-1	TOD	\$0.3822	\$0.1796	-53.0%	-48.0%	112.8%
	Low Income	CARE***	EAPR & EAPRMED**	\$0.2437	\$0.1253	-48.6%	-42.0%	94.4%
All Residential				\$0.3215	\$0.1710	-46.8%	-42.9%	88.1%
Small Commercial****	<= 20 kW	B-1	GFN, CITS-0	\$0.3636	\$0.1739	-52.2%	-47.7%	109.1%
	21 - 299 kW	B-6	CITS-1	\$0.3570	\$0.1607	-55.0%	-49.1%	122.2%
Medium Commercial****	300 - 499 kW	B-10	CITS-2, CITP-2	\$0.3391	\$0.1501	-55.7%	-51.6%	125.9%
	500 - 999 kW	B-19	CITS-3, CITP-3, CITT-3	\$0.2929	\$0.1408	-51.9%	-47.6%	108.1%
Large Commercial****	=> 1 MW	B-20	CITS-4, CITP-4, CITT-4	\$0.2303	\$0.1203	-47.8%	-44.4%	91.4%
Lighting	Traffic Signals	TC-1	TS	\$0.3578	\$0.1377	-61.5%	-57.6%	159.8%
	Street Lighting	various	SLS,NLGT	\$0.4830	\$0.1564	-67.6%	-58.6%	208.9%
Agriculture	Ag & Pumping	AG	ASN/D,AON/D	\$0.3307	\$0.1525	-53.9%	-48.6%	116.8%
System Average				\$0.3133	\$0.1565	-50.1%	-45.5%	100.3%

Notes:

* Projected 2023 average prices for SMUD with rates effective 1-1-23. PG&E average prices in 2023 reflect rates effective 9-1-23, per Advice Letter 7009-E. The rate difference in year 2022 reflects PG&E average rates as of 6-1-22, per Advice Letter 6603-E dated 5-20-22, and SMUD rates effective 3-1-22.

** 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 46.8% below comparable PG&E class average rates. Since the creation of this annual monitoring report, 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. In general, we are seeing large rate increases across the other local utilities. Even with our approved rate increases in 2024 and 2025, SMUD’s rates remain competitive. For example, Modesto recently approved a two-year rate increase of approximately 13% for 2024 and 2025; that’s in addition to an already adopted cumulative rate increase of 10.5% for 2023 and 2024. Roseville Electric is in the middle of proposing 2 rate increases of 9% each for 2024 and 2025. PG&E rates went up by 13% in 2023 alone, with a separate 17% rate increase effective January 2024.

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

SMUD’s TOD and restructured commercial rates were 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. We continually assess our rates as markets and our costs change to determine if any structural changes are needed. For example, we implemented TOD rates in 2018 and restructured our commercial rates in 2021.

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.

The optional residential Critical Peak Pricing (CPP) rate 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 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 more 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 a variety of rebates for energy-efficient appliances, 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, but 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)

The Solar and Storage Rate (SSR) was designed to work with a series of programs and incentives to help SMUD reach its 2030 Zero Carbon Plan. SMUD started the My Energy Optimizer (MEO) incentives and expanded 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 provides 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 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 low-income, multi-family affordable housing will be able to receive the benefits of solar through the Virtual Solar option. In the Virtual Solar option, 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 to mitigate bill impacts.

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. 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.

SMUD is offering three levels of incentives for customers to install storage. The amount of the incentive increases depending on which programs the customers decide to participate in. The smallest incentive, MEO Starter, is for customers that do not wish to participate in a program, the next highest level, MEO Partner, is for customers that want to participate in the CPP rate, and the highest incentive, MEO Partner+, is for customers that want to participate

in the Virtual Power Plant program. Detailed information about storage incentives can be found on smud.org.

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. Ongoing customer outreach and education assists customers in understanding new rate designs, pilots and programs.

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

SMUD continues to address low-income customers and those with medical conditions. The Energy Assistance Program Rate (EAPR) and our Medical Equipment Discount Rate (MED Rate) offer customers a discount on their monthly energy costs for those that qualify. The discount for EAPR is determined by Federal Poverty Level (FPL) with the largest discount going to those that need the most assistance. In September 2023, the Board approved the EAPR Rate Stabilization Fund which gives an additional discount to those customers with the greatest need, using discretionary, non-retail funds.

Additionally, through the EAPR and MED Rate discount program we have assisted nearly 2,000 customers with energy education, energy efficient improvements and repairs, and moved them towards our Clean Energy Vision with building and transportation electrification improvements. These programs improve/reduce their overall energy burden and increase the comfort of their homes.

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 SSR.

4) Challenges

Rate Pressures

SMUD continues to face cost pressures for compliance and risk mitigation requirements, as well as technology and grid investments to support the safe and reliable operation of the grid. Commodity costs to meet our reliability Renewable Portfolio Standards requirements are increased by \$87 million in 2024, along with an increase of \$370 million of capital spending to fund new generation, storage projects, substation and line capacity projects in 2024 and 2025. In addition, increased costs for wildfire management, reliability of our hydro facilities, customer programs to support our clean energy vision, and inflation all added pressure to maintaining SMUD's bottom line. These rate pressures were the drivers and detailed in the 2023 GM Report.

5) Recommendation

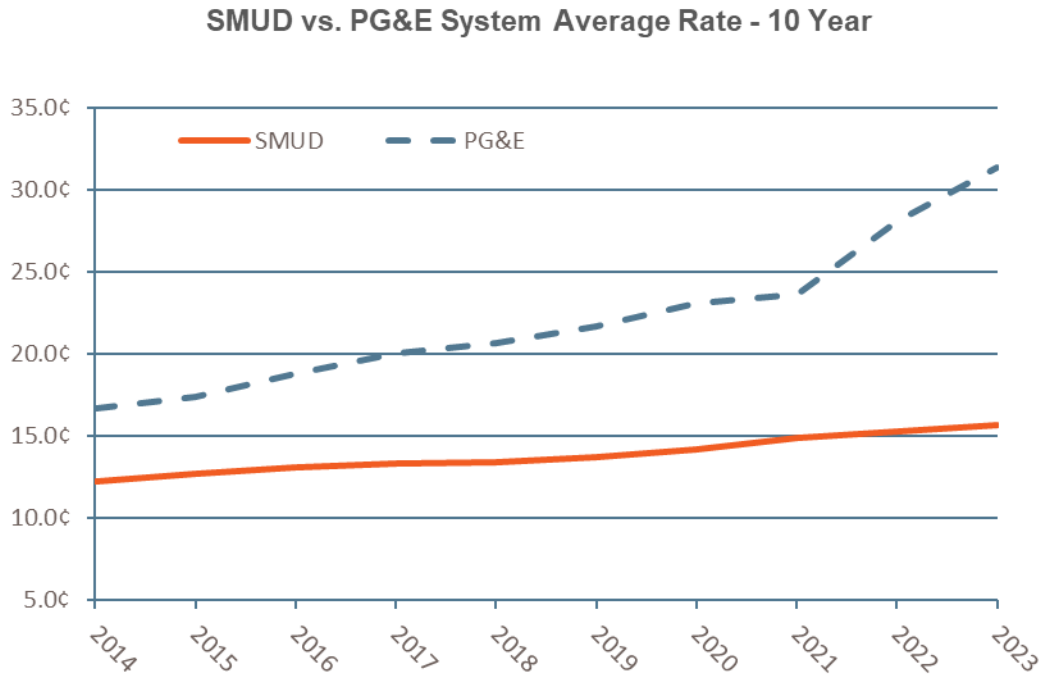
It is recommended that the Board accept the Monitoring Report for SD 2, Competitive Rates.

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 36.1% below PG&E's since 2014.

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



Appendix B: Local Utility Rates

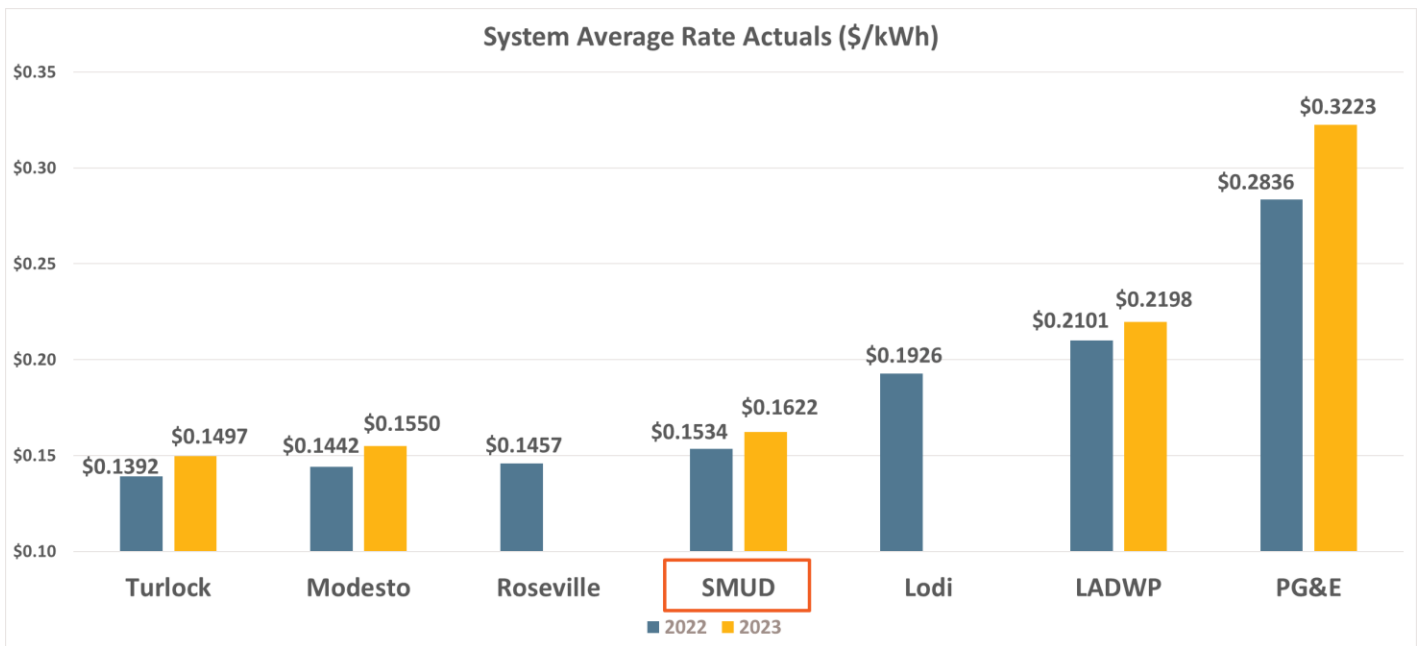
- **Modesto Irrigation District (MID):** On November 15, 2022, MID approved rate increases of 7.4% effective January 2023 and an additional 3.5% for 2024. On November 14, 2023, the MID Board of Directors approved another round of rate increases of 7.5% for January 2024, and a subsequent 5.5% increase for 2025 to cover costs and power supply cost pressure. A Power Cost Adjustment designed to reflect fluctuating power supply costs was also adopted and will be calculated and applied monthly to customer bills in 2025.
- **Turlock Irrigation District (TID):** TID has not had a base rate increase since 2015 and there is no indication the utility plans to modify its base rates in 2024. There is no change planned to the Power Supply Adjustment at the moment.
- **Roseville Electric:** Roseville Electric has scheduled three public rate workshops in January 2024 to explain the need of additional rate increases for 2024 and 2025, however they will continue their 8% energy surcharge through December 31, 2024. The utility states that the need for new rate increases is due to several factors, including

skyrocketing fuel prices, increased operating costs including materials and labor, renewable energy compliance regulations, and a loss of revenue from the state. The proposal includes two rate increases of 9% each for 2024 and 2025 and add the 8% energy surcharge to the base rates to make it permanent.

- **Lodi Electric:** On June 7, 2023, the Lodi City Council adopted a rate increase of 2% effective August 2023 for fiscal year 2023-24 and 2% effective July 2024 for fiscal year 2024-25. The staff report describes that the additional needed revenue is being collected through an increase to the monthly customer charge which is intended to cover the fixed costs of the utility – those costs that do not change based on the amount of energy. Lodi also has a monthly energy cost adjustment that adjusts as power costs increase or decrease. The range of the energy cost adjustment for 2023 was $-\$0.0377/\text{kWh}$ to $\$0.0671/\text{kWh}$.
- **Los Angeles Department of Water and Power (LADWP).** LADWP did not have a base rate increase in fiscal year 2022-2023. LADWP does have a pass-through rate mechanism that adjusts quarterly with costs, outside of any base rate increases. This Energy Cost Adjustment (ECA) ranged between $\$0.10213$ and $\$0.10369$ for 2023.

SMUD’s system average rate remains competitive, as shown in Figure 3. Figure 3 uses 2022 data from the U.S. Energy Information Administration (EIA), which is the most recent actual yearly data available. 2023 values are based on averaged monthly figures through October 2023. Roseville and Lodi do not participate in the reporting of monthly data. System average rates in dollars per kWh is a typical benchmark used in the industry to compare rates and are calculated by taking total electric revenue and dividing it by total kWh retail sales.

Figure 3 – 2022 Utility System Average Rate Comparison (\$/kWh)



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. Any pass-through mechanisms that utilities have are included in Figure 3. Figure 4 details the pass-through mechanisms some of SMUD’s neighboring utilities have as part of their rate structures.

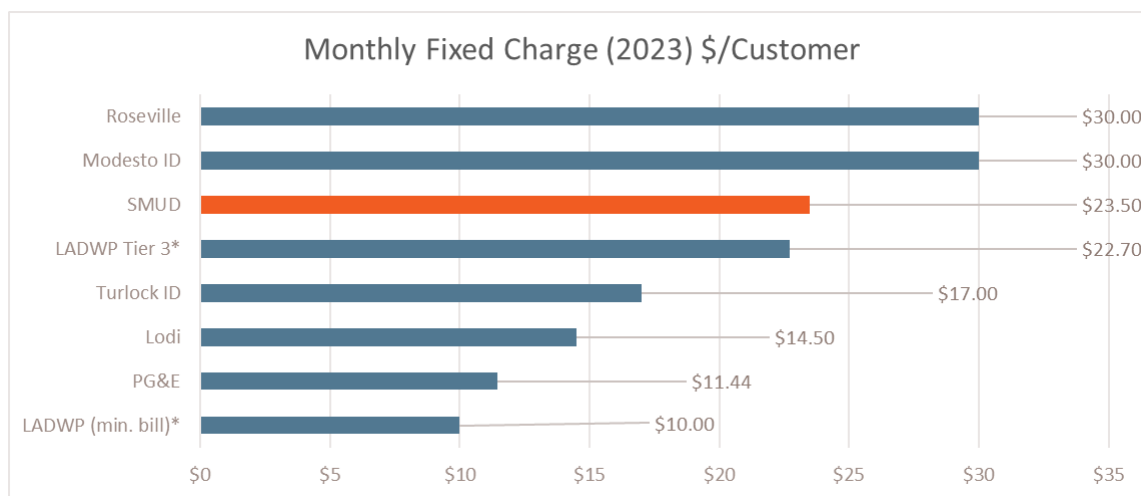
Figure 4 – Utility Pass-through Mechanisms

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

* Modesto’s Power Cost Adjustment (PCA) will be in effect starting January 1, 2025.
 * LADWP has other adjustments to reflect approved rate increases.

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 Residential Fixed Charge Amount



* Roseville Electric increased their customer charge to \$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.
 *** Modesto ID’s customer charge increased to \$30 in 2023

Appendix C: PG&E Updates

Overview of PG&E’s recent rate proceedings

In 2023 PG&E had five rate changes, increasing the system average rate in \$/kWh from \$0.2803 in 2022 to \$0.3133 in 2023 as shown in Figure 6.

Figure 6 – PG&E 2022-2023 Rate Changes

	PG&E Rate Changes in 2022			Annual	PG&E Rate Changes in 2023					Annual
	January	March	June	2022	January	March	June	July	September	2023
Rate Change (%)	7.50%	10.50%	1.00%	19.98%	3.30%	4.40%	-1.80%	5.30%	1.50%	13.19%
System Rate (\$/kWh)*	\$0.2514	\$0.2776	\$0.2803		\$0.2858	\$0.2983	\$0.2931	0.3087	\$ 0.3133	

*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. Per the most recent filing dated 12/29/2023, which reflects the true-up and General Rate Case (GRC), PG&E will increase its rates by 17.1% on average effective January 1, 2024.

For 2024, most of the increase is driven by the GRC which supports the continued implementation of the utility’s wildfire mitigation plan, a large portion of which is “undergrounding” 1,230+ miles of lines where wildfire risk is high. Other driving factors include the need to meet growing energy demand and the addition of more renewables.

PG&E is awaiting a decision from the CPUC on their proposed Income-Graduated Fixed Charge, expected sometime in 2024.

Figures 7 and 8 show the comparison to PG&E rates for each step of SMUD’s rate increases in 2024. The charts show that even with the increases, the difference between PG&E’s and SMUD’s rates still far exceed the directive of SD-2.

Figure 7 – Summary of SMUD and PG&E Rate Comparison in \$/kWh (January 1, 2024 Rates)

Customer		Rate Categories		Average Annual Rate		Difference	Difference	Difference
				PG&E	SMUD	Below PG&E*	Below PG&E*	Above SMUD
Class	Description	PG&E	SMUD	2024	2024	2024	2023	2024
Residential	Standard	E-1	TOD	\$0.4467	\$0.1855	-58.5%	-53.0%	140.8%
	Low Income	CARE***	EAPR & EAPRMED**	\$0.2831	\$0.1285	-54.6%	-48.6%	120.4%
All Residential				\$0.3778	\$0.1757	-53.5%	-46.8%	115.1%
Small Commercial****	<= 20 kW	B-1	GFN, CITS-0	\$0.4417	\$0.1798	-59.3%	-52.2%	145.6%
	21 - 299 kW	B-6	CITS-1	\$0.4380	\$0.1665	-62.0%	-55.0%	163.0%
Medium Commercial****	300 - 499 kW	B-10	CITS-2, CIP-2	\$0.3995	\$0.1563	-60.9%	-55.7%	155.6%
	500 - 999 kW	B-19	CITS-3, CIP-3, CITT-3	\$0.3452	\$0.1464	-57.6%	-51.9%	135.7%
Large Commercial****	=> 1 MW	B-20	CITS-4, CIP-4, CITT-4	\$0.2506	\$0.1305	-47.9%	-47.8%	92.0%
Lighting	Traffic Signals	TC-1	TS	\$0.4360	\$0.1425	-67.3%	-61.5%	206.1%
	Street Lighting	various	SLS,NLGT	\$0.5632	\$0.1599	-71.6%	-67.6%	252.2%
Agriculture	Ag & Pumping	AG	ASN/D,AON/D	\$0.3950	\$0.1558	-60.6%	-53.9%	153.5%
System Average				\$0.3657	\$0.1634	-55.3%	-50.1%	123.8%

Notes:

* Projected 2024 average prices for SMUD with rates effective 1-1-24. PG&E average prices in 2024 reflect rates effective 1-1-24, per Advice Letter 7116-E. The rate difference in year 2023 reflects PG&E average rates as of 9-1-23, per Advice Letter 7009-E dated 8-25-23, and SMUD rates effective 1-1-23.

** 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.

Figure 8 – Summary of SMUD and PG&E Rate Comparison in \$/kWh (May 1, 2024 Rates)

Customer		Rate Categories		Average Annual Rate		Difference	Difference	Difference
				PG&E	SMUD	Below PG&E*	Below PG&E*	Above SMUD
Class	Description	PG&E	SMUD	2024	2024	2024	2023	2024
Residential	Standard	E-1	TOD	\$0.4467	\$0.1898	-57.5%	-53.0%	135.4%
	Low Income	CARE***	EAPR & EAPRMED**	\$0.2831	\$0.1328	-53.1%	-48.6%	113.2%
All Residential				\$0.3778	\$0.1800	-52.4%	-46.8%	109.9%
Small Commercial****	<= 20 kW	B-1	GFN, CITS-0	\$0.4417	\$0.1833	-58.5%	-52.2%	141.0%
	21 - 299 kW	B-6	CITS-1	\$0.4380	\$0.1698	-61.2%	-55.0%	158.0%
Medium Commercial****	300 - 499 kW	B-10	CITS-2, CIP-2	\$0.3995	\$0.1594	-60.1%	-55.7%	150.6%
	500 - 999 kW	B-19	CITS-3, CIP-3, CITT-3	\$0.3452	\$0.1493	-56.7%	-51.9%	131.2%
Large Commercial****	=> 1 MW	B-20	CITS-4, CIP-4, CITT-4	\$0.2506	\$0.1330	-46.9%	-47.8%	88.4%
Lighting	Traffic Signals	TC-1	TS	\$0.4360	\$0.1445	-66.9%	-61.5%	201.8%
	Street Lighting	various	SLS,NLGT	\$0.5632	\$0.1573	-72.1%	-67.6%	258.1%
Agriculture	Ag & Pumping	AG	ASN/D,AON/D	\$0.3950	\$0.1591	-59.7%	-53.9%	148.3%
System Average				\$0.3657	\$0.1670	-54.3%	-50.1%	119.0%

Notes:

* Projected 2024 average prices for SMUD with the rate increases effective 1-1-24 and 5-1-24. PG&E average prices in 2024 reflect rates effective 1-1-24, per Advice Letter 7116-E. The rate difference in year 2023 reflects PG&E average rates as of 9-1-23, per Advice Letter 7009-E dated 8-25-23, and SMUD rates effective 1-1-23.

** 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.

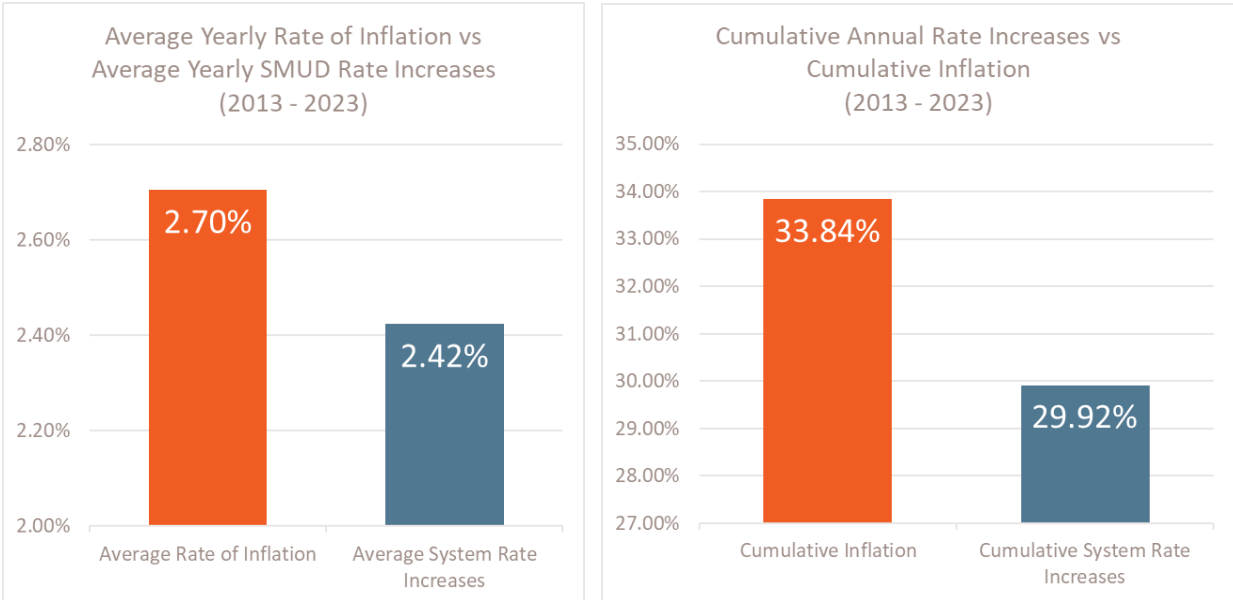
PG&E Residential Time-of-Use Rate

PG&E offers its residential customers a default time-of-use rate (E-TOU-C) that 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 9 shows that SMUD's historical rate increases have been below inflation which is based on the Consumer Price Index (CPI) over the past 10 years.

Figure 9 – 2013–2023 Rate Increases vs Inflation*



*Cumulative totals are calculated using compounded inflation and rate increases.

Figure 10 shows SMUD’s rate increases by year since 2000.

Figure 10 – 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
1/1/2024	2.75%	2.75%	N/A
5/1/2024	2.75%	2.75%	N/A
1/1/2025	2.75%	2.75%	N/A
5/1/2025	2.75%	2.75%	N/A

SSS No. TR24-001

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date Policy Committee – 02/06/24
Board Meeting Date February 15, 2024

TO				TO			
1.	Claire Rogers	6.					
2.	Scott Martin	7.					
3.	Brandy Bolden	8.					
4.	Farres Everly	9.	Legal				
5.	Suresh Kotha	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) Russell Mills		DEPARTMENT Treasury		MAIL STOP B355	EXT. 6509	DATE SENT 01/18/24	

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 set financial targets, financial considerations, and minimum credit ratings for SMUD. The annual report outlines the importance of SD-3 requirements and provides evidence of SMUD’s compliance during the year 2023.

Board Policy: Strategic Direction SD-3, Access to Credit Markets
(Number & Title)

Benefits: Provide the SD-3 Monitoring Report as requested by the Board of Directors and Executive Staff. The report provides an opportunity to make recommendations or policy revisions as necessary.

Cost/Budgeted: Costs contained in internal labor budget.

Alternatives: Provide the SD-3 Monitoring Report via written memo to the Board.

Affected Parties: Treasury, SMUD

Coordination: Treasury

Presenter: Russell Mills, Director, Treasury Operations & Commodity Risk Management and Treasurer

Additional Links:

SUBJECT Accept Monitoring Report for SD-3, Access to Credit Markets	ITEM NO. <i>(FOR LEGAL USE ONLY)</i>
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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: January 24, 2024

FROM: Claire Rogers *CR 1/24/24*

**SUBJECT: Audit Report No. 28007741
Board Monitoring Report; SD-03: Access to Credit Markets**

Internal Audit Services (IAS) received the SD-3 *Access to Credit Markets* 2023 Annual Board Monitoring Report and performed the following:

- Selected a sample of statements and assertions in the report for review.
- Interviewed report contributors and verified the methodology used to prepare the statements in our sample.
- Validated the reasonableness of the statements in our sample based on the data or other support provided to us.

During the review, nothing came to IAS' attention that would suggest the items sampled within 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 2023

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 bond market 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 repay principal and pay 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 and the capacity to finance future capital projects without placing undue burden on customers, either through borrowing or within our rate structure. 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 indicated in the attached ratings agency reports, SMUD demonstrates robust metrics, and, thanks to well-managed cash flow, has the flexibility to target a more conservative fixed charge ratio. 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 \$373k/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, more easily, and at a lower interest rate 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, and commercial insurance policies. 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 addition to cash on hand, SMUD maintains a liquidity program consisting of a commercial paper program and a line of credit. The commercial paper program enables SMUD the ability to issue up to \$300 million of commercial paper notes to obtain funding quickly, when its necessary to maintain our liquidity levels. Similarly the line of credit allows SMUD access to up to \$100 million on short notice but has the advantage that it isn't dependent on investor demand. The commercial paper program and line of credit are instrumental in providing comprehensive liquidity support for its operations and capital initiatives. The liquidity program helps to maintain our credit ratings and mitigate many enterprise risks that are otherwise difficult or financially prohibitive to mitigate through standard means. The commercial paper program and line of credit are structured with agreements from three separate banks, further reducing concentration risk and enhancing overall execution.

In support of maintaining SMUD's financial strength, credit ratings, and to help mitigate risk SMUD procures insurance. SMUD maintains comprehensive property and casualty insurance programs designed to protect against catastrophic losses that would adversely effect 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. SMUD's strong financial position, long term relationships with a variety of insurers, and its liquidity program minimize SMUD's susceptibility to the volatility of insurance market cycles. SMUD maintains cash on hand and access to credit 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. 1.65 times in 2022
 2. 2.32 times in 2023 (forecasted figure as of December 31, 2023)
 3. 2.08 times in 2024 (projected in 2024 Budget)
- b. In 2023, credit ratings were affirmed at 'AA' by both S&P and Fitch, while Moody's had previously affirmed 'Aa3' with a positive outlook in 2022, equivalent to 'AA-'.
- c. Refunded the 2013 Series A bonds by issuing variable rate bonds, and entering into a standby bond purchase agreement to provide liquidity for the bonds. The variable rate bonds are converted into a fixed interest rate due to an interest rate swap entered into in 2020. This synthetically fixed bond issuance locked in the refunding's interest rates, generating annual cash flow savings of \$3.3 million to 5.3 million through 2041, which is equivalent to \$55.5 million in net present value savings or \$79.9 million cash flow savings.
- d. In conjunction with the issuance of variable bonds, SMUD successfully established a new Standby Bond Purchase Agreement (SBPA) with TD Bank. Leveraging SMUD's robust AA credit rating, we received a range of SBPA offers, culminating in the execution of an agreement with TD Bank featuring highly competitive pricing.
- e. Refunded the 2013 Series B bonds with fixed rate bonds and terminated the associated interest rate swap entered into in 2020. This transaction reduced risk and locked in the savings from the refunding, generating annual cash flow savings of \$1.7 million through 2033, which is equivalent to \$14.3 million in net present value savings, or \$18.1 million cash flow savings.

- f. Successfully mitigated interest rate risk in a volatile market environment by strategically refunding \$200 million worth of Commercial Paper through the issuance of long-term fixed-rate debt. This transaction, which also was SMUD's first ever Climate Bond certified Green Bond issuance, also ensured that the entire \$400 million capacity remains available to meet our future borrowing requirements to support our capital improvement program and Zero Carbon Plan.
- g. Accessed credit markets with multiple issuances and rollovers of commercial paper totaling \$150 million outstanding by the end of 2023. The commercial paper issuances were to support SMUD's liquidity needs and capital improvement program.
- h. Additional supplemental contributions of \$44 million were made to CalPERS. This was part of a 10-year pension funding strategy to eliminate our unfunded pension liability, which is 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. SMUD's most current valuations show the Pension funded status at 88% as of June 30, 2022, and the funded status of Other Post Employment Benefits (OPEB) at 92% as of June 30, 2023.
- i. Continued to successfully manage the property and casualty insurance programs amidst a historically challenging market, renewing most programs within expiring terms and conditions. Obtaining wildfire coverage remains a challenge, but even in this tumultuous market SMUD successfully increased the program limit by \$25 million, and reduced the self-insured portion of the first \$100 million layer by \$12.5 million.
- j. Negotiated a \$50 million advance payment on the anticipated claim recovery for the Cosumnes Power Plant (CPP) steam turbine failure insurance claim. SMUD also settled the property damage claim for the CPP steam turbine failure which resulted in SMUD receiving a \$13.6 million payment.

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 averaging 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:

- a. Financial ratios and metrics
- b. Governance Structure and Management
- c. Rate Competitiveness
- d. Cost of production/purchased power (particularly with respect to higher cost renewables)
- e. Risk Management Practices
- f. Service area demographics
- g. 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 SD-3 Board Strategic Direction on Access to Credit Market.

SSS No. BOD 2024-05

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date POLICY – 2024
Board Meeting Date N/A

TO				TO								
1.	Suresh Kotha	6.										
2.	Brandy Bolden	7.										
3.	Farres Everly	8.										
4.		9.	Legal									
5.		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) Rosanna Herber / Crystal Henderson				DEPARTMENT Board Office				MAIL STOP B307	EXT. 5424	DATE SENT 12/21/23		

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: *(Number & Title)* This review of the work plan supports Governance Process GP-6, Role of the Board President, which states, in part, that the Board President “shall ensure that the Board’s agendas meet the goals of the annual 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: Included in budget

Alternatives: Not review the Work Plan at this time.

Affected Parties: Board of Directors and Executive staff

Coordination: Crystal Henderson, Special Assistant to the Board

Presenter: Rosanna Herber, Board President

Additional Links:

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

SSS No. BOD 2024-03

BOARD AGENDA ITEM

STAFFING SUMMARY SHEET

Committee Meeting & Date POLICY - 2024
Board Meeting Date N/A

TO				TO			
1.	Suresh Kotha	6.					
2.	Brandy Bolden	7.					
3.	Farres Everly	8.					
4.		9.	Legal				
5.		10.	CEO & General Manager				
Consent Calendar		Yes	<input type="checkbox"/>	No	<i>If no, schedule a dry run presentation.</i>		
		Budgeted	<input type="checkbox"/>	Yes	No <i>(If no, explain in Cost/Budgeted section.)</i>		
FROM (IPR) Dave Tamayo / Crystal Henderson		DEPARTMENT Board Office			MAIL STOP B304	EXT. 5424	DATE SENT 12/21/23

NARRATIVE:

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

Summary: The Board requested an ongoing 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 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: Governance Process GP-4, Board/Committee Work Plan and Agenda Planning, states, among other things, “the Board will develop and follow an annual work plan that ensures the Board...focuses on the results the Board wants the organization to achieve....”

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

Cost/Budgeted: Included in budget.

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

Affected Parties: Board of Directors and Executive Staff

Coordination: Crystal Henderson, Special Assistant to the Board of Directors

Presenter: Dave Tamayo, Policy Chair

Additional Links:

SUBJECT	Summary of Committee Direction - Policy	ITEM NO. (FOR LEGAL USE ONLY)
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ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.