

**General  
Manager's  
Report and  
Recommendation on**

# **Rates and Services**

**October 7, 2010**



**SMUD**



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***October 7, 2010***

**A Sacramento Municipal Utility District Publication**

***General Manager's Report and Recommendation on  
Rates and Services***

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Sacramento Municipal Utility District's  
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under the direction of:

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# I. Rate Requirements & Recommendations

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## 1. Background

This General Manager's Report and Recommendation on Rates and Services ("GM Report" or "Report") addresses issues prompted by changes in legislation, and growing customer interest in energy efficiency, customer excess renewable energy generation and expanding electric vehicle markets. Additionally, the Report contains miscellaneous tariff language modifications which clarify tariff language without materially altering existing policy. The proposed changes include the following:

- *Revise SMUD's payment for annual excess electricity from customer-sited photovoltaic (PV), wind, fuel cell or biogas systems,*
- *Add a metered street lighting rate to accommodate emerging street lamp technologies,*
- *Expand the definition for electric vehicles (EV) and modify the plug-in electric vehicle (PEV) metering arrangement, and*
- *Reset facilities charges after SMUD-approved energy efficiency or PV installations.*

The most significant change is the manner in which SMUD will compensate its customers for renewable energy generation in excess of power consumed over an annual period. The change is legislatively mandated by Assembly Bill No. 920 (AB 920) and will compensate the net annual excess generation at a price more representative of SMUD's average cost of generation. This approach is required by AB 920 and provides a level of fairness for other customers who will no longer subsidize excess PV generation beyond its true value.

The proposed new metered street lighting rate stems from customers requesting rates for new energy-efficient lamp sources such as light-emitting diodes (LED). In addition to using less overall energy, these lamps can provide variable power and light output in response to traffic levels. Current street light rates have fixed prices that do not depend on actual lamp use. The proposed rate requires metering to measure actual lamp use so that customers pay only for what they use rather than a fixed fee.

Technology is moving forward in other sectors as well. New electric vehicles are being introduced by major automobile manufacturers and SMUD customers are beginning to reserve and purchase them. This Report proposes changes to the existing electric vehicle rates to clarify eligibility and modify metering requirements. These changes will help pave the way for new electric vehicle rates in a future rate action.

The remaining proposal calls for encouraging energy efficiency and renewable power investment by immediately reducing a customer's fixed annual facilities charge upon installation of such measures. For SMUD-approved projects the facilities charge will be reset to reflect the new lower demand values that result from the customer's energy efficiency or renewable power investment.

The rate changes in this Report will ensure SMUD meets legislative requirements. These proposals will also ensure our customers continue to benefit from generating their own renewable power, by investing in energy efficiency or by owning a next-generation EV.

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## 2. General Manager's Recommendation

The electric utility environment is in a state of rapid transformation. To address these changes, this Report recommends the following modifications or additions to SMUD's existing rates, service or policies:

- *Comply with the legislative mandate for net metering compensation by paying all customers who elect compensation for annual excess generation at a rate equal to SMUD's budgeted cost of energy*
- *Apply excess net metered energy credits to energy charges only; credits will not be applied to service charge or program fees*
- *Provide more options for customers purchasing EVs by clarifying the definition of an EV and allowing submetering for EV charging and billing*
- *Increase street lighting options by adding a metered street light rate that encourages adoption of new, more efficient LED street light technology*
- *Encourage the installation of commercial solar/PV systems by allowing for the reset of the annual facilities charge*

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## 3. Workshops

SMUD will hold two qualifying Public Rate Workshops and a Public Hearing at the SMUD campus to provide complete information on the proposed rate changes. The workshops and hearing will:

- *Present an opportunity for customers to join the Board of Directors and SMUD executives in a discussion of utility-related issues.*
- *Provide a forum to present proposed rates.*



- *Invite public input and response to questions on the proposed changes.*
- *Distribute fact sheets describing expected impacts to individual consumer classes.*
- *Inform customers about ways they can conserve energy to help mitigate rate increases.*

### **Workshops and Public Hearing Schedule**

<b>Date &amp; Time</b>	<b>Location</b>	<b>Address</b>
Tuesday, November 9, 2010 9:00 a.m.	<i>Workshop</i> SMUD Headquarters Auditorium	6201 S Street, Sacramento
Wednesday, November 17, 2010 6:00 p.m.	<i>Workshop</i> SMUD Headquarters Auditorium	6201 S Street, Sacramento
Thursday, December 2, 2010 6:00 p.m.	<i>Public Hearing</i> SMUD Headquarters Auditorium	6201 S Street Sacramento

SMUD staff will be on hand at the public workshops and the public hearing to provide further details on the rate issues addressed in the Report, and to answer any questions.

### **Community Participation**

SMUD invites the public to participate in the rate process by providing feedback to SMUD's Board of Directors at one of the scheduled workshops or the public hearing. In addition, the public can direct specific questions about a recommendation or the rate process, to Rob Landon, Rates Administrator, at (916) 732-6222.

## II. Changes to Existing Rates

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### Overview

This section proposes changes to existing rate schedules, to be effective January 1, 2011, except for street lights which will be effective January 25, 2011. Detailed discussion, recommendations, and impact analysis are provided following this overview.

1. **Electric Vehicle Option Modifications** – The recommendations are:
  - a. Expand the definition of electric vehicles (EV) to include Battery Electric Vehicles (BEV), Plug-in Electric Vehicles (PEV), and Plug-in Hybrid Electric Vehicles (PHEV);
  - b. Allow for submetering of EV to capture the EV load profile and perform appropriate billing; and
  - c. Change the residential rate language to clarify that the electric vehicle charging rate allows the premise to be on the standard rate or the time-of-use (TOU) Option 1.
2. **Net Metering** – The recommendations are:
  - a. As mandated by state legislation, update the existing Net Metering tariff to compensate all annual excess generators;
  - b. Establish a Net Metering Surplus Compensation value for customers who elect to be compensated for annual excess generation, at a rate equal to SMUD's budgeted cost of energy; and
  - c. Establish a practice to recover monthly service charges and voluntary program related fees from net metering customers.
3. **Street Lights** – The recommendation is to create a new metered rate for customer-owned and maintained street lighting.
4. **Miscellaneous Charges and Fees** – The recommendations are:
  - a. Eliminate the optional metered standby service charge; and
  - b. Reset the maximum 12-month facilities charge for SMUD approved commercial solar/Photovoltaic system installations.

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# 1. Electric Vehicle Option Modifications

This section:

- Proposes expansion of the electric vehicle definition;
- Proposes changes to metering arrangements for new EVs; and
- Clarifies the residential premise rate requirements when the EV rate is being applied.

## A. Electric Vehicle Terminology

### ***Purpose***

The automobile industry is launching many new electric vehicle (EV) models in the next thirty- six months. As used here, the term EV includes BEVs and PHEVs. Following is a more inclusive list of EVs:

- The (BEV) which is the traditional EV that the rate schedule language most closely aligns with now;
- The (PEV) that can be charged from an external source such as a wall socket and;
- The (PHEV) which is powered by both rechargeable batteries and an internal combustion engine (ICE). The primary source of power is the battery and the ICE serves as backup. The EV's battery is recharged by plugging in to the electric grid.

### ***Revenue Impact***

There is no revenue impact related to this language modification.

### ***Recommendation***

The Electric Vehicle sections of the tariffs will be modified to use the term PEV in place of EV. The term PEV is meant to be inclusive of BEV, PEV, and PHEV. Modified Rate Schedules are provided in Appendix C.

## B. Submetering of Plug-in Electric Vehicles

### ***Purpose***

Currently, residential PEV customers can charge their vehicles either by using an existing circuit on their house meter or by installing a dual meter adaptor which allows for separate metering and billing on SMUD's PEV TOU rate.

Certification issues with the dual meter adaptor have caused SMUD to re-evaluate PEV metering. One of the solutions is to separately submeter the PEV load *downstream of the* house meter. Subtractive billing would enable the PEV

to receive the PEV rate discount while the household usage would still be billed on the standard rate or the TOU Option 1 rate. If the household is on TOU Option 2 rate, the PEV rate discount would not be available with a submeter and the PEV will be billed at the TOU Option 2 rate unless the customer elects to rewire their electrical service to accommodate a separate metered panel for the electric vehicle load.

Submetering is the least cost option and allows SMUD to apply the PEV discount while gathering PEV charging data to assist in future rate design.

### ***Revenue Impact***

Due to the limited number of PEVs currently available, the impact on revenue will be negligible. The predicted trend is for a significant increase in the sale and use of PEVs. However, this increase is expected to develop slowly over the next five to ten years, so the impact will not be in the immediate term. In the meantime, charging data will be collected to allow the rate design to be revisited in another rate proceeding.

### ***Recommendation***

Modify the Electric Vehicle sections of the Residential tariff to provide for the use of submetering. Modified Rate Schedules are provided in Appendix C.

## **C. Language Clarification**

### ***Purpose***

This is the current residential EV rate language:

“This option is for residential customers who own licensed passenger electrical vehicles, and take service under the optional Time-of-Use Rate (Option 1) upon proof of vehicle registration.”

Questions have arisen as to whether the requirement for taking service under the TOU rate includes service to the residence or is only required for the vehicle charging.

The Electric Vehicle Rate Option language should be expanded to modify the residential tariff effective January 1, 2011, as follows:

#### ***(C) Plug-in Electric Vehicle (PEV) Option***

This option applies to residential customers who own licensed passenger electric vehicles and/or passenger battery electric and plug-in hybrid electric vehicles, and take service for the **vehicle charging** under the optional TOU (Option 1) upon proof of vehicle registration. The term PEV is meant to be inclusive of battery electric vehicle, plug-in electric vehicle, and plug-in hybrid electric Vehicles.

This option requires installation of a TOU meter on the charging location and billing under the Optional TOU (Option 1) with a credit of 2.43¢ per kWh off the winter off-peak energy charge and a credit of 2.71¢ per kWh off the summer off-peak energy charge. The service charge will be waived. The TOU meter will be a submeter to the premise's main meter unless the customer, at his or her own expense, elects to have installed a separate panel and meter.

When submetered, the PEV rate is not available to customers whose premise load is billed on TOU Option 2. (Rate Category RTEV)

Modify the **General Service** rate schedule as follows (changes in italics):

**C. *Plug-in* Electric Vehicle (PEV) Option**

Owners of licensed commercial plug-in electric vehicles (PEV) *and/or commercial battery electric or plug-in hybrid electric vehicles* may choose to have a charging location be billed under GSTOU2. The term PEV is meant to be inclusive of battery electric vehicle, plug-in electric vehicle, and plug-in hybrid electric Vehicles.

***Revenue Impact***

There is no revenue impact to the language clarification.

***Recommendation***

Modify the Electric Vehicle sections of the tariffs to provide clarification. Modified Rate Schedules are provided in Appendix C.

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## 2. Net Metering Compensation

This section

- Updates the existing Net Metering tariff to meet new state legislative requirements that take effect January 1, 2011;
- Establishes a Net Metering Surplus Compensation (NMSC) value as required by the new state law; and
- Establishes a practice to recover service charges and voluntary program fees from net metering customers.

### A. Updates to the Net Metering Tariff

***Purpose***

California Assembly Bill No. 920 (AB 920) requires all electric utilities to:

- Provide all qualifying renewable net metered customer-generators who have net annual excess generation the **option** to:
  - receive compensation for the net annual excess kWh,
  - rollover the net annual excess kWh, or
  - forego any compensation or rollover.

- If a customer chooses to be compensated for net annual excess renewable generation, the utility must pay them based on “avoided cost” and at a rate that is both “just and reasonable” and does not result in cost shifting between customers.
- Pay for annual excess generation from all customers with a net annual excess. Currently, SMUD’s practice is to compensate residential, small commercial or agricultural customers for excess generation.

### ***Revenue Impact***

There is negligible revenue impact to the language modification.

### ***Recommendation***

Staff recommends that, in order to provide for compliance with legislative requirements, the Board adopt the proposed tariff language in schedule 1-NM which is provided in Appendix C.

## **B. Net Metering Surplus Compensation Value**

### ***Purpose***

AB 920 requires that the Board of Directors set a value for annual net excess generation that is “just and reasonable” and that does not result in shifting costs from customers on net metered rates to customers on bundled rates. The established value will be paid to customers who elect to be compensated for excess annual renewable generation. Customers who choose to roll over excess annual renewable generation to the next annual period will continue to receive an energy credit on their monthly electric bill. Staff considered three values for compensating customers who elect payment for their annual excess renewable generation:

- the cost of electricity,
- the cost of electricity combined with the value of its renewable attributes, and
- the value of the renewable attributes of the electricity.

SMUD already owns the renewable attributes of a customer’s net generation, by virtue of its SB-1 rebate payments to the customer at the time of the installation of the renewable generation. Paying for these renewable attributes twice would increase subsidies from other customers to customers with renewable generation. Therefore, staff recommends the price paid for annual excess generation be equal to SMUD’s annual budgeted net commodity costs divided by the forecasted gigawatthour sales to all customers. This recommendation will adequately compensate customers with annual excess renewable generation who elect to sell that generation to SMUD while not requiring any additional costs be paid by SMUD’s other customers for the excess energy. For example, the 2010 published budget would yield a 2010 NMSC value of \$0.0584 per kilowatt-hour. This value will be updated annually as a new budget is adopted by the Board and posted on SMUD’s website.

## ***Revenue Impact***

Of the total number of SMUD's residential customers with net-metered renewable generation, only six percent (6%) produce net annual excess kilowatt-hours. On the commercial side, only three net-metered customers produce net annual excess energy, or less than five percent (5%) of the total commercial accounts with net-metered generation. Of these, two are small commercial accounts with monthly electric demand less than 21 kW. If any of these customers choose to roll over their annual excess renewable generation to a new annual period, the customer will be paid the same retail rates they were paid on all other renewable generation. Therefore there are no revenue impacts to customers when customers choose to roll over their excess renewable generation. However, if a customer chooses to be paid for their annual excess renewable generation, the customer would lose the existing subsidy allowed them through the retail rate and their compensation would be reduced based on the net metering compensation value. Table 1 below illustrates the revenue impacts by customer class.

TABLE 1: Projected impacts if customers elect compensation

Customer Class	*Net Metering Customers	Number of Excess Generators	Excess Generators as a Percent of Net Metering Customers	Customer Median Annual Compensation Impact	Class Median Annual Compensation Impact
Residential	1354	74	6%	< (\$40)	<(\$3,000)
Small GS (<21kW)	44	2	5%	<(\$400)	<(\$800)
Large GS (21+ kW)	33	1	3%	<\$500	≤\$500

\* Net metering customer count shown above includes only those customers with 12 months of billing history.

## ***Recommendation***

Staff recommends that, in order to provide for compliance with legislative requirements, the Board adopt the proposed tariff language in schedule 1-NM which is provided in Appendix C.

## **C. Payment of Service Charge and Program Charges**

### ***Purpose***

The existing practice is to allow net metered customer-generators to have the retail value of their monthly excess generation apply to energy charges, fixed monthly service charges and voluntary program fees. This practice allows net-metered customers to avoid paying fixed monthly service charges and monthly

fees for voluntary programs such as Home Power, Power Protection, Carbon Offsets, or Greenenergy, even though SMUD still incurs the costs of providing these services to net-metered customers. This results in non-net-metered customers subsidizing the fixed costs and voluntary program fees of net-metered customers during months when the net-metered customer has excess generation.

### ***Revenue Impact***

SMUD anticipates that there will be negligible revenue impact as increased revenue from fixed monthly service charges and voluntary program fees will offset decreased revenue from rollover credits applied to future energy sales. Currently, six percent (6%) of the total residential net metered customers have sufficient generation to offset all of their energy related charges and receive credit for their fixed monthly service charges and voluntary program fees. These customers will now be expected to pay the fixed monthly service charge (\$7.20/month) and any voluntary program fees but will receive additional energy credits in later months that will offset current fixed service charges. Annual bill impacts may be nearly zero, but monthly charges will increase by at most \$7.20 per month plus any voluntary program fees that vary from customer to customer. In addition, demand-metered commercial customers will now be expected to pay the facilities and demand charges in addition to their fixed monthly service charge and any voluntary program fees. Annual bill impacts for demand-metered customers also will be nearly zero.

### ***Recommendation***

Staff recommends that the Board reduce subsidies between net-metered and non net-metered customers, requiring all customers to pay the fixed monthly service charges and any voluntary program fees as set out in schedule 1-NM which is provided in Appendix C.

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## **3. New Metered Street Lighting Service Rate**

### ***Purpose***

Street lighting customers have begun to research, and in some instances have already installed, new light-emitting diode (LED) fixtures which can use sensors to power up or down in response to traffic activity. They are motivated by the potential for energy and billing savings and, in the case of local governments, a reduction in greenhouse gases as mandated by state legislation. These customers can only document these benefits with the addition of SMUD metering.

The new metered customer-owned, customer-maintained street lighting rate will charge \$0.0711/kWh for energy use, consistent with other street lighting rates. It will also include an \$8.25 monthly service charge to recover for the cost of metering. The latter charge is identical to the service charge for small commercial customers on the General Service Non-Demand (GSN) rate.

### ***Revenue Impact***



The few initial customers availing themselves of the new rate will have limited revenue impact. The rate will continue to compensate SMUD for the off-peak energy use at the comparable level of other street lighting rates, while the additional monthly charge will contribute to the expense of reading and maintaining the SMUD meter.

### ***Recommendation***

Create a new Street Lighting Service Rate for metered street lights as defined in Appendix C and including a service charge of per month of \$8.25 and an energy charge 7.11¢ per kWh.

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## **4. Miscellaneous Rate Changes**

### **A. Eliminate Optional Metered Standby Service Charge**

#### ***Purpose***

This section proposes elimination of the Optional Metered Standby Service Charge for customers who install and operate, in whole or in part, customer-owned generator(s) on their premises and where 1) the output connects to SMUD's electrical system and 2) SMUD must stand ready to provide backup or maintenance service to replace the generator(s).

SMUD has a long history of encouraging distributed generation which utilizes renewable resources and/or efficient, environmentally friendly non-renewable resources. In 2005, SMUD adopted a distributed generation policy (Board Resolution No. 01-04-04) and subsequently adopted Strategic Directive (SD-9) that promotes deployment of clean distributed generation.

SMUD staff has been working with several customers over the past year to evaluate feasibility of distributed generation used in combined heat and power applications to serve portions of customer electrical and thermal needs. Through these efforts, SMUD staff determined that the Optional Metered Standby Service Charge currently included in several rate schedules could result in SMUD under collecting charges incurred to backup the distributed generators. The impacted rate schedules are the General Service (GS), Agricultural Service (AG), Large General Service Time-of-Use (GS-TOU1), Medium General Service Time-of-Use (GS-TOU2), and Time-of-Use Commercial (GS-TOU3).Revenue Impact

Due to the limited number of installed distributed generators within SMUD's service territory to date, that are required to pay the standby service charge, the revenue impact from the proposed recommendation is expected to be negligible. However, it is possible that, because of the increased pressure to reduce greenhouse gas emissions and improve end-use energy efficiency, more customer-sited distributed generation used in combined heat and power applications will occur in the future. Properly designed and operated combined

heat and power distributed generation systems can improve end use efficiency compared to traditional electric and natural gas services. Therefore there is possibility of positive revenue impact in the future.

### **Recommendation**

For GS, AG, GS-TOU1, GS-TOU2, and GS-TOU3 rates, delete the following Standby Service Option:

#### **Optional Metered Standby Service Charge**

~~The customer may elect to base the standby charge on actual metered generator output in relation to total site load, which may result in a different standby billing than one based on contract capacity. This option requires the customer to pay for the installation and monthly maintenance of special metering equipment at both the generator and the customer's SMUD meter.~~

~~This option uses a metered standby kW instead of contract capacity kW to determine the standby service charge. The formula is as follows:~~

$$\text{metered standby kW} = (\text{maximum site kW}) - (\text{SMUD billing kW})$$

~~where:~~

~~“maximum site kW” is the highest coincident sum of the hourly generator output, if any, and the SMUD-metered load for the billing period, and~~

~~“SMUD billing kW” is the maximum hourly load recorded at the customer meter during the previous 12 months.~~

Modified rate schedules are provided in Appendix C.

## **B. Reset of Facilities Charge for Commercial Solar/Photovoltaic Installations**

### **Purpose**

SMUD provides a variety of programs for commercial customers to encourage installation of solar/ PV systems. Currently, customers participating in a SMUD-sponsored program will continue to receive facilities charge based on up to 12 months of historical demands.

### **Revenue Impact**

The proposed language will provide immediate savings to the customer when implementing a SMUD-approved installation of PV systems and will only slightly reduce SMUD revenues. The impact to SMUD is negligible.

### **Recommendations**

The General Manager recommends modifications to rate schedules GS, GS-TOU1, GS-TOU2 and GS-TOU3 as set forth in Appendix C, with the purpose of providing commercial customers a reset of their annual facilities charges based on reduced demand resulting from energy efficiency investments or installation of new PV systems.

Modified rate schedules are provided in Appendix C.

# III. Changes to Rules and Regulations

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## Overview

This section presents the proposed changes to existing Rules and Regulations, effective January 1, 2011. The following is an overview of the changes. A detailed discussion, recommendation, and impact analysis is provided following this overview. The proposed changes include:

**Wording to add the conditions of the Interconnection Agreement to Rule 21 (21.C)** – Additions to Rule and Regulation 21 eliminate the need for a specific agreement for each PV installation in the net metering agreement.

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## 1. Rule and Regulation 21 Customer-Owned Generation

This section:

- Adds clarifying language
- Adds Section D. related to the Feed-in tariff

### ***Purpose***

Rule 21 currently only directs customers to guidelines for interconnecting and operating customer-owned generation. The current customer-owned generation environment calls for more detailed information to be provided in Rule and Regulation 21. In addition, elements related to the Feed-in tariff need to be incorporated as well.

In the prior rate proceeding Section D. was inadvertently omitted from Rule 21.

### ***Revenue Impact***

There will be no revenue impact from this change.

### ***Recommendations***

Staff recommends adding to Rule 21 as set forth in Appendix C.

## IV. Environmental Assessment

- 1.0 Section 21080(b)(8) of the California Public Resources Code and Section 15273 of the California Environmental Quality Act (CEQA) Guidelines (California Code of Regulations, Title 14, Sections 15000, et seq.) provide that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies which the public agency finds are for the purpose of:
- (1) Meeting operating expenses, including employee wage rates and fringe benefits;
  - (2) Purchasing or leasing supplies, equipment, or materials;
  - (3) Meeting financial reserve needs and requirements;
  - (4) Obtaining funds for capital projects necessary to maintain service within existing service areas; or
  - (5) Obtaining funds that are necessary to maintain such intra-city transfers as are authorized by city charter.
- 2.0 Section 15061(b) (3) of the CEQA Guidelines provides that where it can be said with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.
- 3.0 It can be seen with certainty that there is no possibility that the proposed action to expand the definition of electric vehicles to include BEV, PEV, and PHEV to the definition of EV in the tariffs may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.
- 4.0 The proposed action to allow for submetering of EVs to capture the EV load profile and perform appropriate billing, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

- 5.0 The proposed action to modify the residential rate language to clarify that the EV charging rate allows the premise to be on the standard rate or TOU Option 1, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 6.0 It can be seen with certainty that there is no possibility that the proposed action to update the existing Net Metering tariff sheet to comply with mandated state legislation may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.
- 7.0 The proposed action to establish a Net Metering Surplus Compensation value for customers who elect to be compensated for annual excess generation, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 8.0 The proposed action to establish a practice to recover monthly service charges and voluntary program related fees from net metering customers, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 9.0 The proposed action to create a new metered rate for customer-owned and maintained street lighting, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 10.0 The proposed action to eliminate the optional metered standby service charge, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 11.0 The proposed action to reset the maximum 12-month facilities charge for SMUD approved solar/PV system installations, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 12.0 It can be seen with certainty that there is no possibility that the proposed action to modify Rule and Regulation 21 to add interconnection details and feed-in tariff language may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

# V. Energy Conservation Tips

To help customers manage their energy costs in the face of a rate increase, SMUD provides information and resources on how to lower energy use. Some examples of these actions:

**Replace incandescent bulbs with compact fluorescent lamps (CFLs).** Replacing the five bulbs used most frequently in your house with CFLs will save about \$60 per year. New technology CFLs last up to 10 times longer than incandescent bulbs, use only 30 percent of the energy, and produce significantly less heat than incandescent lights.

**Lower the thermostat setting of central heating systems.** Reducing the thermostat setting from 68 to 60 degrees overnight can save up to \$13 per month for a gas furnace and \$10 per month with an electric heating system. Also lowering the thermostat just 2 degrees (for example, from 70 to 68 degrees) will save about 5 percent off the costs of heating your home.

**Change the filter on your central heating/cooling system at least once a month to keep the system operating at peak efficiency.**

**Unplug a spare refrigerator or freezer located in the garage.** This can lower the average residential bill by up to \$16 per month. If a customer is storing an unused refrigerator or freezer in the garage, they should be sure to remove all doors to prevent accidental suffocation.

**Replace refrigerators that are 10 or more years old.** *Energy Star* models can save about \$8 per month over the older appliances.

**Run washing machines and dishwashers with full loads.** This can reduce an average monthly electric bill by as much as \$7.

**Upgrade or install weather stripping and caulking every five years.** This will increase the comfort level in the home and lower electric bills by as much as \$5 per month.

**Install a water-heater blanket on your water heater.** Some newer water heaters have insulation already incorporated into the unit and may not need an external blanket, so check the owner's manual first.

# VI. Programs and Links

Additional information and assistance is available through the following links.

## **Save Today, Save Tomorrow**

<http://www.smud.org/en/savetoday/pages/index.aspx>

## **Promotions, Rebates and Financing**

SMUD has promotions and rebates to help our customers save energy and money. For example, SMUD buys down the cost of electric appliances and products to encourage energy efficiency.

<http://www.smud.org/en/rebates/Pages/index.aspx>

## **Stay Warm, Save Energy and Money**

<http://www.smud.org/en/residential/conservation-tips/pages/index.aspx>

## **Greenergy®**

Through its Greenergy® program, SMUD offers you the choice of supporting energy created by green resources.

<http://www.smud.org/en/community-environment/greenergy/pages/index.aspx>

## **Offset Your Carbon Footprint**

SMUD's carbon offset program provides you with an opportunity to neutralize the carbon dioxide emissions produced during a number of daily activities — driving a car, using the air conditioner, turning on household lights, or taking a trip on a plane.

<http://www.smud.org/en/community-environment/carbon-offset/pages/index.aspx>

## **Free Shade Trees**

If your home has an eastern, western or southern exposure that heats up during the summer, you may be eligible to receive free trees from SMUD.

<http://www.smud.org/en/residential/trees/pages/index.aspx>

## VII. Strategic Directives

These Strategic Directives have been adopted by resolution of the Board of Directors to set forth the core values and strategic framework for the District. Note: Strategic Directives are grouped by Core Values and Key Values, so numbering will not be sequential.

### SD-1A Purpose Statement

SMUD's purpose is to provide solutions for meeting our customers' electrical energy needs.

### SD-1B Vision Statement

SMUD's vision is to empower our customers with solutions and options that increase energy efficiency, protect the environment, reduce global warming, and lower the cost to serve our region.

In implementing this vision, SMUD will adhere to these principles:

- a) Preserve our customers' quality of life by offering flexibility and options;
- b) Enable customers to use both active and passive means to achieve these goals;
- c) Enable all customers to participate;
- d) Collaborate, as appropriate, with partners who share SMUD's goals;
- e) Focus on investing in energy efficient infrastructure for both SMUD and customer facilities;
- f) Use a comprehensive communication strategy;
- g) Leverage SMUD's leadership role to achieve these goals.

### Core Values

#### ***SD-2 Competitive Rates –***

Maintaining competitive rates is a core value of the District.

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 rate of change for both rates and bills 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;
- ii) Reduce use on peak;
- iii) Encourage energy efficiency and conservation;
- iv) Minimize "sticker" shock in the transition from one rate design to another;
- v) Offer flexibility and options;
- vi) Be simple and easy to understand;
- vii) Meet the needs of people with fixed low incomes and severe medical conditions; and
- viii) Equitably allocate costs across and within customer classes.

### ***SD-3 Access to Credit Markets –***

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 1.3 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.

### ***SD-4 Reliability –***

Meeting customer energy requirements is a core value of SMUD.

Therefore:

- a) SMUD will assure all customer energy requirements are met. This will be accomplished through the use of: (i) its generation resources and purchase power portfolio 100 percent of the time; and (ii) its transmission assets to assure an overall availability of at least 99.99 percent.
- b) SMUD will achieve distribution system reliability by:

Limiting the average frequency of outage per customer per year to:

- With major event: 0.99 – 1.33
- Excluding major event: 0.85 – 1.14

Limiting the average duration of outages per customer per year to:

- With major event: 67.5 – 93.3 minutes
- Excluding major event: 49.7 – 68.7 minutes

Ensuring that no individual circuits exceed these targets for more than two consecutive years.

- c) SMUD will maintain the electric system in good repair and make the necessary upgrades to maintain load serving capability and regulatory standards.

### ***SD-5 Customer Relations –***

Maintaining a high level of customer relations is a core value of SMUD.

Therefore, the Board establishes an overall customer satisfaction target of 95 percent with no individual component measured falling below 85 percent.

As part of this policy:

- a) SMUD customers shall be treated in a respectful, dignified and civil manner.
- b) SMUD shall communicate a procedure for customers who believe they have not received fair treatment from SMUD to be heard.

### ***SD-6 Safety –***

Creating a safe environment for workers and customers is a core value of SMUD.

Therefore, the Board is committed to meeting all applicable laws and regulations, continuous safety improvement, and establishes a target to reduce 2006 SMUD safety incident rates by 40 percent by 2013.

### ***SD-7 Environmental Protection –***

Environmental leadership is a core value of SMUD. The Board is committed to environmental leadership through community engagement, continuous improvement in pollution prevention, carbon reduction, energy efficiency, and conservation.

Therefore:

- a) SMUD will conduct its business affairs and operations in a manner that reduces adverse environmental impacts, reduces pollution, and enhances resource conservation and stewardship.
- b) SMUD will provide leadership in the reduction of the region's total emissions of greenhouse gases through proactive programs in all SMUD activities and development and support of national, State, and regional climate change policies and initiatives.
- c) SMUD will promote the efficient use of energy by its customer-owners.
- d) SMUD will proactively engage its customer-owners and other stakeholders in meeting this directive.

### ***SD-8 Employee Relations –***

Developing and maintaining a high quality, inclusive workplace that engages and inspires employees to commit to SMUD's purpose, vision and values is a core value of SMUD.

Therefore:

- a) SMUD shall foster trust, innovation, open communication, and accountability in its workforce.

- b) SMUD shall build, foster and sustain a work environment that encourages inclusion of different viewpoints, approaches, backgrounds, where employees are valued and respected.
- c) SMUD shall engage its workforce in personal and professional development.
- d) SMUD shall engage its workforce to:
  - i) Understand and actively support SMUD’s purpose, vision and values;
  - ii) Work with the community to support SMUD’s purpose, vision and values.
- e) SMUD’s workforce shall reflect the broader values and interests of the community and its customer-owners.
- f) SMUD shall maintain and communicate written policies that define procedures and expectations for staff and provide for effective handling of grievances.
- g) Annually, and consistent with State and Federal law, the Board shall receive a report detailing the demographics of the SMUD workforce, the available workforce, and the Sacramento region.

### ***SD-9 Resource Planning –***

It is a core value of SMUD to provide its customer-owners with a sustainable power supply through the use of an integrated resource planning process.

A sustainable power supply is defined as one that reduces SMUD’s net long-term greenhouse gas emissions to serve customer load to 350,000 tonnes (10% of its 1990 carbon dioxide emission levels) by 2050, while assuring reliability of the system, minimizing environmental impacts on land, habitat, water quality, and air quality, and maintaining a competitive position relative to other California electricity providers.

To guide SMUD in its resource evaluation and investment, the Board sets the following interim goals:

<b>Year</b>	<b>Net Greenhouse Gas Emissions (metric tonnes)</b>
2012	2,608,000
2020	2,318,000

In keeping with this policy, SMUD shall also achieve the following:

- a) Acquire cost-effective, reliable and feasible energy efficiency and demand reduction resources (e.g. distributed storage, direct load management, and time-of- use pricing). Set a goal of reducing energy consumption by 15% by 2020 and meet the following milestones (targets shall be reviewed and revised every three years):

<b>Year</b>	<b>Gigawatt Hours</b>	<b>Megawatts</b>
2011	166	26.5
2012	169	27.1
2013	171	27.3
2014	175	28.0

2015	179	28.7
2016	183	29.2
2017	185	29.6
2018	187	30.0
2019	190	30.5
<u>2020</u>	<u>194</u>	<u>31.0</u>
Total	1,798	287.7

b) Provide dependable renewable resources to meet 20% of SMUD’s load by 2010, and 33% of its load by 2020, excluding additional renewable energy acquired for certain customer programs. In acquiring renewable resources, SMUD shall emphasize local and regional environmental benefits.

c) Promote cost effective, clean distributed generation through SMUD programs. As part of this policy, SMUD shall continue to be a leader in solar power.

### ***SD-11 Local Control –***

Support for public power and preservation of local decision-making and control are core values of SMUD. Community-owned utilities are primarily accountable to customers-owners, not stockholders. Community citizens have a direct voice in utility decisions.

Preservation of local decision-making and control are vital to ensure public power systems can provide solutions that best meet the needs of their customers.

### ***SD-12 Ethics –***

Maintaining the public trust and confidence in the integrity and ethical conduct of the Board and District employees is a core value of the District. Therefore, to ensure the public interest is paramount in all official conduct, the Board shall adopt and update, as necessary: a Conflict of Interest Code as required by State law. The District shall also maintain and enforce a code of ethics applicable to all employees.

Among other things the code of ethics shall:

- a) Require high ethical standards in all aspects of official conduct;
- b) Establish clear guidelines for ethical standards and conduct by setting forth those acts that may be incompatible with the best interests of the District and the public;
- c) Require disclosure and reporting of potential conflicts of interest; and
- d) Provide a process for reporting and investigating suspected violations of the code of ethics.

### ***SD-16 Information Management and Security Policy –***

Proper management of District information is a core value of the District. Consistent information management practices are critical to reduce the risk of legal liability, regulatory noncompliance, natural disaster recovery, criminal activity, theft of critical resources, and to assure customer satisfaction. The District shall take reasonable measures to ensure:

- a) Information Security: The protection of District information (confidential, proprietary, and intellectual property) and information

systems from unauthorized access, use, disclosure, disruption, modification, or destruction;

b) Customer Privacy: Maintaining the confidential nature of customer information that is proprietary or relates to customer privacy interests, including social security numbers, addresses, phone numbers, birth dates, and specific billing, credit and energy usage information; provided however, customer privacy shall not extend to aggregate information regarding the usage, load shape or other general characteristics of a group or rate classification. Release of customer information is permissible as reasonably necessary to meet the District's business interests (e.g., collection of unpaid bills or debts, reporting to credit agencies, exchange of customer information with other utilities for collection purposes or determinations of creditworthiness, or cooperation with law enforcement).

c) Records Management: The efficient and systematic control of the creation, capture, identification, receipt, maintenance, use, disposition, and destruction of District records, in accordance with legal requirements and Board policies.

### ***SD-17 Enterprise Risk Management –***

Effectively balancing and managing risk to further SMUD's policies and business goals is a core value of SMUD.

Therefore:

SMUD will implement and maintain an integrated enterprise risk management process that identifies, assesses, prudently manages and mitigates a variety of risks facing SMUD, including financial risk, supply risk, operational risk, physical security risk, legal risk, legislative and regulatory risk, and reputational risk.

## **Key Values**

### ***SD-10 Research and Development –***

To assure SMUD's long-term competitiveness and its ability to deliver innovative products and services, SMUD shall invest in research and development projects that support its core and key values, based on an analysis of the projects' relative risks and their potential benefits to SMUD customers.

### ***SD-13 Economic Development –***

Promoting local and regional economic benefits is a key value of the District. Therefore, the District shall assist in retaining, recruiting and growing rate-paying businesses in order to build and maintain a healthy and inclusive commercial and industrial customer base that benefits all customer classes. The District shall emphasize assistance to businesses that promote energy efficiency, advanced renewable technologies, and environmental protection.

Therefore, the District shall:

- a) Promote the development and growth of small and emerging businesses.
- b) Partner with local and regional organizations in collaborative efforts.
- c) Develop enhanced rates and new service incentives.

- d) Support the Sacramento Region Blueprint Transportation and Land Use Study planning principles and preferred growth scenario.

### ***SD-14 System Enhancement –***

As a community-owned utility, SMUD recognizes that the relocation or underground placement of primary voltage power lines may be desirable to local jurisdictions to improve aesthetics, economic vitality, safety and disabled access. Therefore, it is a key value of the District to make selected distribution system enhancements, such as relocation or underground placement of primary power lines below 69 kV.

- a) The District will, at its expense and where technically feasible, relocate or underground existing overhead distribution facilities provided the governing body of the city or county in which the electric facilities are and will be located has:
  - i) Identified, after consultation with SMUD, a specific system enhancement project;
  - ii) Determined the project is in the public interest;
  - iii) Ensured all existing overhead communication facilities related to the project will also be relocated or placed underground;
  - iv) Obtained and provided SMUD with all easements necessary for the project.
- b) After achievement of core financial targets, the District will annually commit up to one-half of one percent of its annual gross electric sales revenue to system enhancements. The proposed projects will be subject to the District's annual budget approval process, and uncommitted funds from any given year will not be carried over to future years. Funding will be assigned to projects brought forward by local cities or counties based on applying the following criteria (not in order of preference):
  - i) Project scale and/or cost when measured against available District resources.
  - ii) Requesting entity has developed full scope, obtained all necessary easements, and development plan for customer service conversion from overhead to underground, as required.
  - iii) Extent to which the costs are borne by others.

### ***SD-15 Outreach and Communication –***

Providing broad outreach and communication to SMUD's customers and the community is a key value of the District.

Specifically:

- a) SMUD shall provide its customers the information, education and tools they need to best manage their energy use according to their needs.
- b) SMUD will use an integrated and consistent communication strategy that recognizes the unique customer segments that SMUD serves.
- c) SMUD's communication and community outreach activities shall reflect the diversity of SMUD. SMUD shall use a broad mix of communication channels to reach all customer segments. This

communication shall be designed to ensure that all groups are aware of SMUD's major decisions and programs.

## VIII. Glossary of Terms

### ***Core values***

SMUD's core values are part of the Board's Strategic Direction and are a component of all solutions for meeting our customers' electrical needs. SMUD core values include competitive rates, reliability, access to credit markets service reliability, customer relations, safety, environmental protection, employee relations, local control and ethics.

### ***Distributed Generation***

Distributed generation, also called on-site generation, decentralized generation, decentralized energy or distributed energy, generates electricity from many small energy sources. Distributed energy resource (**DER**) systems are small-scale power generation technologies (typically in the range of 3 to 10,000 kW) used to provide an alternative to or an enhancement of the traditional electric power system.

### ***Electric Vehicle***

A ground vehicle propelled by a motor that is powered by electrical energy from rechargeable batteries or other source onboard the vehicle, or from an external source in, on, or above the roadway. Examples are the golf cart, industrial truck and tractor, automobile, delivery van and other on-highway truck, and trolley bus. In common usage, electric vehicle refers to an automotive vehicle in which the propulsion system converts electrical energy stored chemically in a battery into mechanical energy to move the vehicle. This is classed as a battery-only-powered electric vehicle. The batteries provide the power to propel the vehicle, and to power the lights and all accessories such as air conditioning and radio. The other major class is the hybrid-electric vehicle, which has more than one power source such as battery power with a small internal combustion engine or a fuel cell.

### ***Key values***

Key values, part of the Board's Strategic Direction, define SMUD's course of action regarding resource planning, research and development, economic development and system enhancement.

### ***LED***

LED is an acronym for light-emitting diode, a type of light source capable of producing very high intensity.

### ***Renewable Energy***

Renewable energy is energy generated from natural resources—such as sunlight, wind, rain, tides and geothermal heat—which are renewable (naturally replenished).



### ***Standby Service***

Standby service is the act of providing electric service to a customer in the event the customer's on-site generation is disabled or becomes unavailable for any reason.

### ***SB 1***

California State Senate Bill No. 1(SB 1) provides a long-term commitment and more than \$3.35 billion in funding to leverage private investment to deploy 3,000 MW of solar power systems on residential, commercial and government buildings throughout the state.

### ***Submetering***

A system whereby a main meter captures all usage for the location while a separate meter captures usage for a sub-location or specified usage.

### ***Tariff***

A schedule of rates or charges of a business or a public utility.



# **Appendix A. - Audited Financial Statements**



**SACRAMENTO MUNICIPAL UTILITY DISTRICT  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Sacramento Municipal Utility District  
Sacramento, California

We have audited the accompanying consolidated balance sheets of Sacramento Municipal Utility District and its blended component units as of December 31, 2009 and 2008, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Sacramento Municipal Utility District's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Municipal Utility District and its blended component units at December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, effective January 1, 2008 the Sacramento Municipal Utility District adopted the provisions of FASB Statement No. 157 – *Fair Value Measurements*, now included under FASB ASC 820, prospectively, for interest rate swap agreements and natural gas and electricity derivative financial instruments that are measured at fair value on a recurring basis. The effective date for asset retirement obligations that are measured at fair value on a non-recurring basis under FASB ASC 820 is January 1, 2009.

The management's discussion and analysis on pages 2 through 16 and the Schedules of Funding Progress are not a required part of the consolidated financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
February 19, 2010

## **SACRAMENTO MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of the Sacramento Municipal Utility District and its component units (SMUD) financial performance provides an overview of SMUD's financial activities for the years ended December 31, 2009 and 2008. This discussion and analysis should be read in conjunction with SMUD's financial statements and accompanying notes, which follow this section.

### **BACKGROUND**

SMUD was formed by a vote of the electors in 1923, under provisions of the State of California Municipal Utility District Act, and began electric operations in 1947. SMUD is governed by an elected Board of Directors (Board) and has the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations, and, under certain circumstances, to levy and collect ad valorem property taxes. SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and a small adjoining portion of Placer County.

### **Setting of Rates**

The Board has autonomous authority to establish the rates charged for all SMUD services. Changes in such rates require formal action, after public hearing, by the Board.

In June 2009, the Board approved an average system rate increase of approximately 5.5 percent that was effective in rates beginning September 1, 2009; 5.5 percent effective in rates beginning March 1, 2010; and 2.25 percent effective in rates January 1, 2011. In April 2009, \$11 million from the Hydro Rate Stabilization Fund was recognized as revenue to cover the budget impact of lower hydro generation resulting from lower precipitation for the period April 1, 2008 through March 31, 2009.

### **Financial Reporting**

SMUD's accounting records are maintained in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). Over the years, the FASB and other designated GAAP-

setting bodies, have issued standards in the form of FASB Statements, Interpretations, etc. The FASB recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release on July 1, 2009, of the FASB Accounting Standards Codification<sup>TM</sup>, sometimes referred to the Codification or ASC. The Codification does not change how the company accounts for its transactions or the nature of related disclosures made. However, when referring to guidance issued by the FASB, SMUD refers to topics in the ASC rather than Statement 143, etc. The above change was made effective by the FASB for periods ending on or after September 15, 2009. References to GAAP in this Annual Report have been updated to reflect the guidance in the Codification. SMUD's accounting records generally follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission, except as it relates to the accounting for contributions of utility property in aid of construction.

In accordance with Financial Accounting Standards Board ASC 980, formerly known as Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", the Board has taken various regulatory actions for ratemaking purposes that result in the deferral of expense or revenue recognition. As of December 31, 2009, SMUD had total Regulatory Costs for Future Recovery of \$364 million, which is a net decrease of \$2 million from 2008. The decrease is primarily due to a reduction in the deferred costs for Rancho Seco decommissioning and a decrease in the valuation of derivative financial instruments, partially offset by a deferred pollution remediation obligation for one of SMUD's transmission substations. SMUD also had Regulatory Credits of \$285 million as of December 31, 2009, which is a net decrease of \$34 million from 2008. The decrease is primarily due to the recognition of revenue for the natural gas settlement that was deferred in 2008, the recognition of \$11 million of revenue from the Hydro Rate Stabilization Fund to offset lower hydro generation as a result of lower precipitation, and the recognition of revenues from the Rate Stabilization Fund to offset lower Western Area Power Administration (Western) energy deliveries. These reductions of Regulatory Credits were partially offset by the increase of deferred revenues related to Contributions In Aid of Construction. The Regulatory Costs and Regulatory Credits will be recognized in the Consolidated Statement of Revenues, Expenses and Changes in Net Assets in future periods as determined by the Board for ratemaking purposes.



### Using This Financial Report

This financial annual report consists of management's discussion and analysis and the consolidated financial statements, including notes to the consolidated financial statements. The financial annual report reflects the activities of SMUD primarily funded through the sale of energy, transmission, and distribution services to its customer-owners.

### Consolidated Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows

The consolidated financial statements provide both short-term and long-term information about SMUD's financial status. The Consolidated Balance Sheets include all of SMUD's assets and liabilities, using the accrual method of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants, Board action and other commitments. The Consolidated Balance Sheets provide information about the nature and amount of resources and obligations at a specific point in time. The Consolidated Statements of Revenues, Expenses and Changes in Net Assets report all of SMUD's revenues and expenses during the periods indicated. The Consolidated Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income, debt financing, and other cash uses such as payments for bond principal and capital additions and betterments.

## **FINANCIAL HIGHLIGHTS**

### **Condensed Consolidated Balance Sheets**

(millions)

		<u>December 31,</u>	
Assets	<u>2009</u>	<u>2008</u>	<u>2007</u>
Electric Utility Plant – net .....	\$ 2,979	\$ 2,927	\$ 2,882
Restricted and Designated Assets .....	202	274	273
Current Assets .....	786	739	734
Noncurrent Assets and Deferred Charges .....	860	1,159	1,077
	<u>\$ 4,827</u>	<u>\$ 5,099</u>	<u>\$ 4,966</u>
Liabilities and Net Assets			
Long-Term Debt - net .....	\$ 3,010	\$ 3,205	\$ 3,173
Current Liabilities and Deferred Credits.....	690	740	724
Noncurrent Liabilities and Deferred Credits.....	611	643	580
Net Assets:			
Invested in capital, net of related debt.....	219	274	321
Restricted .....	87	122	95
Unrestricted .....	210	115	73
	<u>\$ 4,827</u>	<u>\$ 5,099</u>	<u>\$ 4,966</u>

### **ASSETS**

#### *Utility Plant – net*

##### *2009 Compared to 2008*

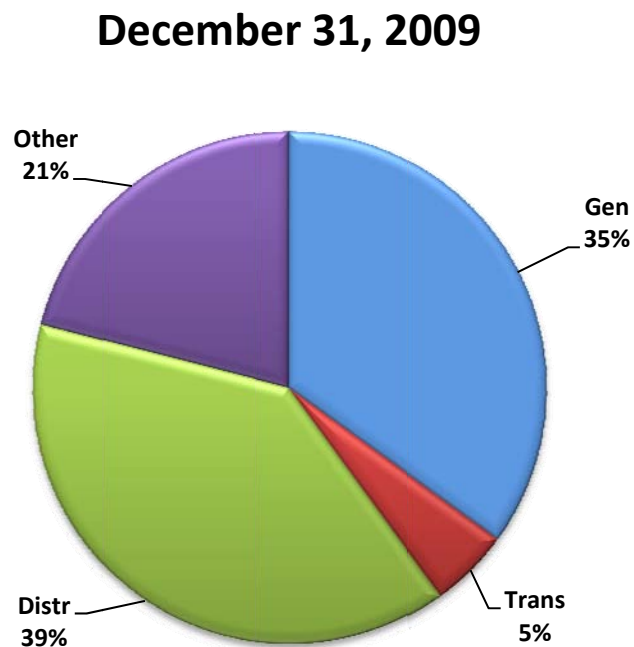
SMUD has invested approximately \$3.0 billion in utility plant assets and construction work in progress net of accumulated depreciation at December 31, 2009. Net utility plant makes up about 62 percent of SMUD's assets, approximately 5 percent more than the previous year. During 2009, SMUD capitalized approximately \$217 million of additions to utility plant, including additions to construction work in progress in SMUD's consolidated financial statements. This was a result of routine capital additions for generation, transmission, distribution, and general plant.

##### *2008 Compared to 2007*

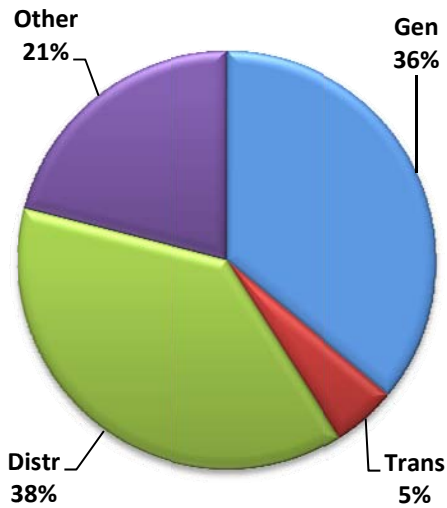
SMUD has invested approximately \$2.9 billion in utility plant assets and construction work in progress net of accumulated depreciation at December 31, 2008. Net utility plant makes up about 57 percent of SMUD's assets, approximately 1 percent less than the previous year. During 2008, SMUD capitalized approximately \$200 million of additions to utility plant, including additions to construction work in progress in SMUD's consolidated financial statements. This was a result of routine capital additions for generation, transmission, distribution, and general plant.

SMUD entered into a contract with Fru-Con Construction Corporation (Fru-Con) to construct the Cosumnes Power Plant project. Unable to resolve the disputes over costs and delays to the satisfaction of SMUD, the contract was terminated in February 2005. SMUD is currently in litigation with Fru-Con to resolve these disputes. SMUD assumed the construction management responsibilities for the completion of the Cosumnes Power Plant project. See Note 18 for additional details.

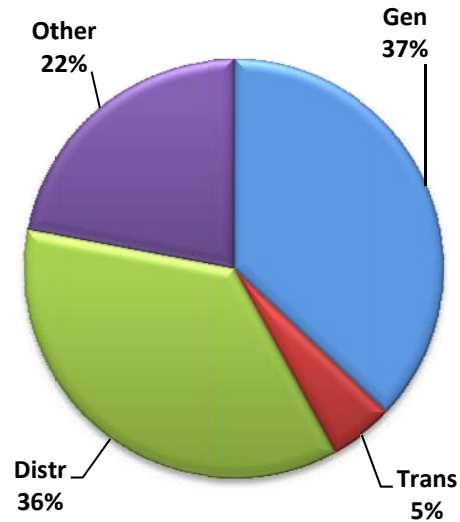
The following charts show the breakdown of net utility plant by major plant category – Generation (Gen), Transmission (Trans), Distribution (Distr), and Other:



## December 31, 2008



## December 31, 2007



### *Restricted and Designated Assets*

#### *2009 Compared to 2008*

SMUD's Restricted and Designated Assets decreased by \$72 million during 2009. There was a significant decrease in Revenue Bond, Debt Service, and Construction Reserves mainly due to component unit refundings that resulted in a reduction in the requirement for various restricted funds. The Rate Stabilization Funds decreased due to the recognition of revenue to offset the budget impact of lower hydro generation resulting from lower precipitation in the previous water year and for lower energy deliveries from Western. There also was a significant decrease in funds held for Securities Lending Collateral.

#### *2008 Compared to 2007*

SMUD's level of Restricted and Designated Assets increased by \$1 million during 2008. There was a significant decrease in the Nuclear Decommissioning Trust Fund reflecting continued progress on decommissioning the Rancho Seco nuclear plant site, a decrease in the Rate Stabilization Fund as a result of recognizing \$15 million in current year revenues to offset the budget impacts of low precipitation, and a \$44 million reduction in Securities Lending Collateral held by SMUD. These decreases were more than offset by increase of Revenue Bond, Debt Service and Construction Reserve funds and a significant reduction in the current portion of Restricted and Designated Assets.

### *Current Assets*

#### *2009 Compared to 2008*

Current Assets increased by \$47 million in 2009 due to increases in Unrestricted Cash and Cash Equivalents, Receivables for retail customers, Derivative Financial Instruments maturing within one year, and Prepayments. These increases were partially offset by a lower current portion of Restricted and Designated Assets, lower wholesale receivables, and lower Materials and Supplies.

#### *2008 Compared to 2007*

Current Assets increased by \$5 million in 2008 due to increases in Unrestricted Cash and Cash Equivalents, Receivables for both retail and wholesale customers, Regulatory Costs to be recovered within one year, Materials and Supplies, and Prepayments. These increases were partially offset by a lower current portion of Restricted and Designated Assets, a lower current portion of Energy Efficiency Loans, and a lower current portion of Derivative Financial Instruments.

### *Noncurrent Assets and Deferred Charges*

#### *2009 Compared to 2008*

Total Noncurrent Assets and Deferred Charges decreased by \$299 million mainly due to a \$272 million reduction in the long-term portion of the Prepaid Gas asset. Twice during 2009, Morgan Stanley Capital Group (MSCG) extinguished component unit debt and made cash payments in exchange for a reduction in their obligation for daily natural gas deliveries. Additionally, there were decreases in the long-term portion of Advance Capacity Payments, Derivative Financial Instruments, Unamortized Debt Issuance Costs, and Preliminary Project Studies and Other.

#### *2008 Compared to 2007*

Total Noncurrent Assets and Deferred Charges increased by \$82 million due to higher Regulatory Costs for future recovery. This increase is mainly due to deferred costs for the change in value of Derivative Financial Instruments resulting from significant price changes in the power and gas markets. Additionally, there were increases in the long-term portion of Energy Efficiency Loans and Preliminary Projects and Other. These increases were partially offset by a reduction in the value of Derivative Financial Instruments.

## LIABILITIES

### *Long-Term Debt*

#### *2009 Compared to 2008*

In January 2009, SMUD extinguished \$250 million of 2007 Northern California Gas Authority #1 (NCGA) Series B Gas Project Revenue Bonds, a component unit of SMUD. In August 2009, SMUD extinguished an additional \$10 million of 2007 NCGA Series B Gas Project Revenue Bonds. For both extinguishments, MSCG funded the bond extinguishment plus made cash payments to NCGA in exchange for a lowering their obligation for daily natural gas deliveries.

In May 2009, SMUD issued \$200 million of fixed-rate 2009 Series V Electric Revenue Bonds. These bonds qualify under the federal program as "Build America Bonds" and SMUD expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable. The interest payments on these bonds are fully taxable.

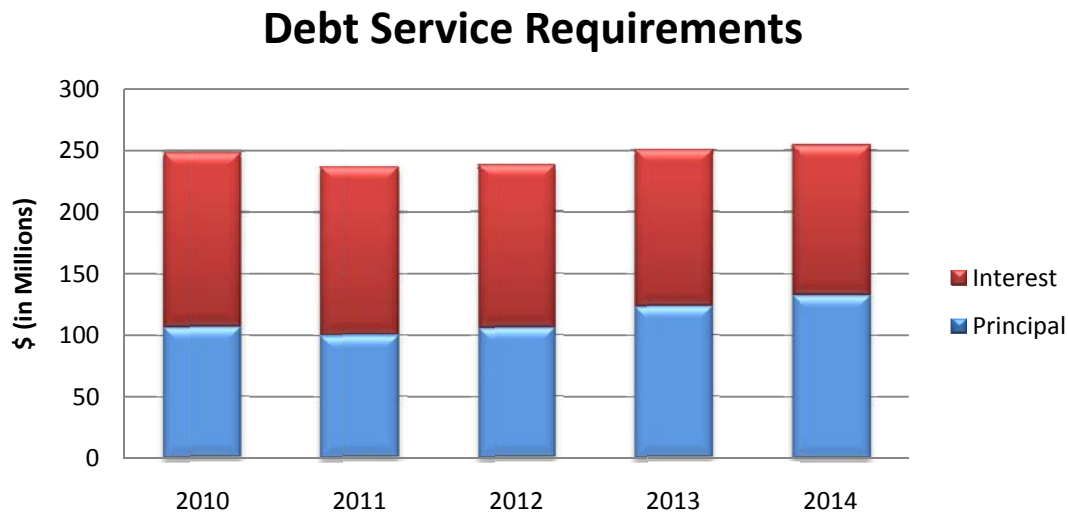
In August 2009, SMUD issued \$58 million of fixed-rate 2009 Series Sacramento Cogeneration Authority (SCA) Cogeneration Project Revenue Refunding Bonds, a component unit of SMUD. Bond proceeds plus \$7 million of available funds were used to refund \$68 million of outstanding 1998 Series SCA Cogeneration Project Revenue Bonds.

In August 2009, SMUD issued \$49 million of fixed-rate 2009 Series Central Valley Financing Authority (CVFA) Cogeneration Project Revenue Refunding Bonds, a component unit of SMUD. Bond proceeds plus \$5 million of available funds were used to refund \$55 million of outstanding 1998 Series CVFA Cogeneration Project Revenue Bonds.

#### *2008 Compared to 2007*

In June 2008, SMUD issued \$522 million of fixed-rate Series U Electric Revenue Refunding Bonds to refund outstanding fixed-rate bonds and various Auction Rate Securities, and to reimburse for construction expenditures. In August 2008, SMUD issued \$198 million of variable-rate Series J and Series K Subordinated Electric Revenue Refunding Bonds to refund various Auction Rate Securities.

The following table shows SMUD's future debt service requirements through 2014 as of December 31, 2009:



As of December 31, 2009, SMUD had an underlying rating of "A+" from Standard & Poor's, "A" from Fitch, and "A1" from Moody's. Most of SMUD's bonds are insured and are rated by the rating agencies at the higher of the insurer's rating or SMUD's underlying rating.

#### *Current Liabilities and Deferred Credits*

##### *2009 Compared to 2008*

Current Liabilities and Deferred Credits decreased by approximately \$50 million during 2009. The most significant decrease was a reduction in SMUD's obligation for Securities Lending Collateral reflecting lower securities lending activity in 2009. SMUD's obligation for Credit Support Collateral also decreased during the year as a result of lower energy and gas prices. Other decreases were attributable to Accounts Payable, Interest Payable, and Regulatory Credits to be recognized within one year. These decreases were partially offset by an increase in Long-Term Debt due within one year and Derivative Financial Instruments maturing within one year.

##### *2008 Compared to 2007*

Current Liabilities and Deferred Credits increased by approximately \$16 million during 2008. During 2008, SMUD issued \$50 million of Commercial Paper Notes to finance or reimburse capital expenditures. The current portion of the value of Derivative Financial Instruments increased by \$73 million as a result of significant price changes in the power and gas markets. These increases were partially offset

by decreases in Accounts Payable, the current portion of Accrued Decommissioning reflecting the near completion of radiological decommissioning of the Rancho Seco nuclear plant site, and a lower amount held as Securities Lending Collateral.

#### *Noncurrent Liabilities and Deferred Credits*

##### *2009 Compared to 2008*

Noncurrent Liabilities and Deferred Credits decreased by \$32 million during 2009. Accrued Decommissioning decreased by \$12 million reflecting a lower estimate for the cost of completing decommissioning at the Rancho Seco nuclear plant site. Also, the value of the liability for Derivative Financial Instruments decreased by approximately \$21 million due to price changes in the power and gas markets. Regulatory Credits also decreased by \$17 million reflecting the recognition in 2009 of previously deferred revenue. These decreases were partially offset by increase for amounts Due to Affiliated Entity and for Self-Insurance, Deferred Credits and Other.

##### *2008 Compared to 2007*

Noncurrent Liabilities and Deferred Credits increased by nearly \$63 million during 2008. Accrued Decommissioning increased by \$15 million reflecting a higher estimate for the total cost of decommissioning the Rancho Seco nuclear plant site. Also, the value of the liability for Derivative Financial Instruments increased by approximately \$141 million due to significant price changes in the power and gas markets. These increases were partially offset by a reduction in Regulatory Credits due to recognition of revenue from the Rate Stabilization Fund to offset the budget impacts of low precipitation, a reduction of deferred revenues related to precipitation hedges, a reduction in the deferred credit for the change in value of Derivative Financial Instruments. Additionally, the Credit Support Collateral Obligation decreased by \$23 million.



Condensed Statement of Consolidated Revenues, Expenses and Changes in Net Assets

(millions)

	<u>2009</u>	<u>December 31,</u> <u>2008</u>	<u>2007</u>
Operating revenues .....	\$ 1,293	\$ 1,487	\$ 1,312
Operating expenses .....	<u>(1,209)</u>	<u>(1,349)</u>	<u>(1,217)</u>
Operating income .....	84	138	95
Other revenues .....	28	38	47
Interest charges .....	<u>(124)</u>	<u>(164)</u>	<u>(147)</u>
Net increase/(decrease) in net assets before extraordinary income .....	(12)	12	(5)
Extraordinary income .....	<u>17</u>	<u>10</u>	<u>-0-</u>
Increase/(decrease) in net assets .....	5	22	(5)
Net assets – beginning of year .....	<u>511</u>	<u>488</u>	<u>493</u>
Net assets – end of year .....	<u>\$ 516</u>	<u>\$ 510</u>	<u>\$ 488</u>

CHANGES IN NET ASSETS

*Operating Revenues*

*2009 Compared to 2008*

Operating Revenues were \$1.3 billion in 2009, a decrease of \$193 million from 2008. Sales to retail customers were \$1.1 billion in 2009, a decrease of \$17 million as compared to 2008 sales. SMUD sold about 2.1 percent less energy to its retail customers, which grew from 592,490 customers in 2008 to 595,076 customers at the end of 2009, at an average revenue per kilowatt hour that increased by 0.3 percent. SMUD transferred \$16 million from the Rate Stabilization Fund in 2009 as compared to a transfer from the Rate Stabilization Fund of \$16 million in 2008. SMUD also transferred \$11 million from the Hydro Rate Stabilization Fund during 2009. Additionally, SMUD deferred approximately \$1 million of Senate Bill 1 revenues to match them against expenditures in future periods.

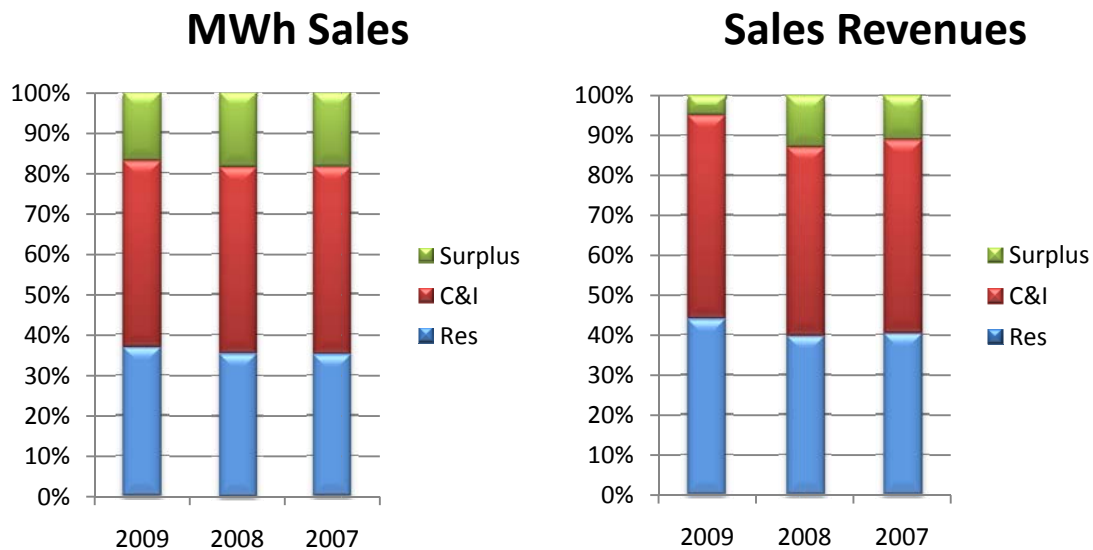
Wholesale revenues are comprised of both surplus energy and gas sales. In 2009, surplus gas sales were \$61 million as compared to \$139 million in 2008. The amount of surplus gas sold was lower, but at higher average prices. Surplus energy sales in 2009 were \$112 million lower than in 2008. The decrease is due to lower volume (12 percent) at significantly lower average prices (61 percent) than in 2008.

*2008 Compared to 2007*

Operating Revenues were \$1.5 billion in 2008, an increase of \$175 million over 2007. Sales to retail customers were \$1.2 billion in 2008, an increase of \$80 million

as compared to 2007 sales. SMUD sold about 1 percent more energy to its retail customers, which grew from 589,599 customers in 2007 to 592,490 customers in 2008, at an average revenue per kilowatt hour that increased by 6.5 percent. SMUD transferred \$16 million from the Rate Stabilization Fund as compared to a transfer from the Rate Stabilization Fund of \$16 million in 2007. SMUD also deferred approximately \$8 million of Senate Bill 1 revenues to match them against the expenditures in future periods.

The following charts show the percentage of megawatt hour (MWh) sales and sales revenue in 2009, 2008, and 2007 by surplus energy sales (Surplus), commercial and industrial (C&I), and residential (Res) customers:



### *Operating Expenses*

#### *2009 Compared to 2008*

Operating Expenses were \$1.2 billion in 2009, approximately \$139 million lower than in 2008. Purchased Power expense was \$107 million lower in 2009 mainly due to lower average prices and less energy purchased as compared to 2008.

Approximately three percent less energy was purchased in 2009 at average prices that were 22 percent lower than in 2008. Purchased Power expense increased by \$4 million for precipitation hedges and insurance. In 2009, net fuel costs for generation, a component of Production Costs, were approximately \$271 million, or \$34 million higher than 2008. Less fuel was used in 2009 (5.4 million decatherms), primarily due to lower production at all of the component unit cogeneration plants (14 percent). Average net fuel prices were 30 percent higher in 2009 as compared to 2008.

These reductions were partially offset by higher Administrative, General and Customer expenses, which were \$6 million higher in 2009 than in 2008.

Depreciation expense increased by \$7 million due to a change in the remaining service life for meters as SMUD transitions to advanced metering technology and due to normal capital plant additions.

In 2009, power supply costs made up approximately 61 percent of total Operating Expenses as compared to 66 percent for 2008.

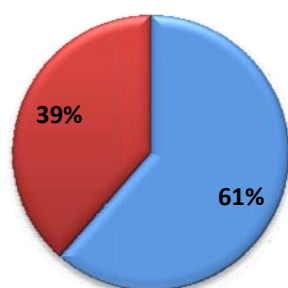
#### *2008 Compared to 2007*

Operating Revenues were \$1.5 billion in 2008, an increase of \$175 million over 2007. Sales to retail customers were \$1.2 billion in 2008, an increase of \$80 million as compared to 2007 sales. The District sold about 1 percent more energy to its retail customers, which grew from 589,599 customers in 2007 to 592,490 customers in 2008, at an average revenue per kilowatt hour that increased by 6.5 percent. The District transferred \$16 million from the Rate Stabilization Fund as compared to a transfer from the Rate Stabilization Fund of \$16 million in 2007. The District also deferred approximately \$8 million of Senate Bill 1 revenues to match them against the expenditures in future periods.

Wholesale revenues are comprised of both surplus energy and gas sales. In 2008, surplus gas sales were \$139 million as compared to \$78 million in 2007. The amount of surplus gas sold was higher, but at slightly lower average prices. Surplus energy sales in 2008 were \$37 million higher than in 2007. The increase is due to higher volume (1 percent) at higher average prices (26 percent) than in 2007.

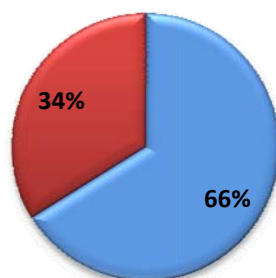
The following charts compare the relative cost of Purchased Power, Production expenses, and depletion of the Rosa gas field (power supply costs) to all other Operating Expenses in 2009, 2008, and 2007:

**2009 Operating Expenses**



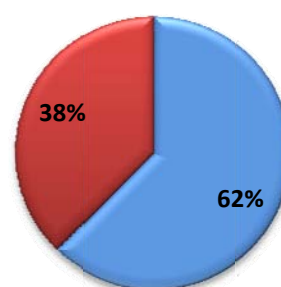
■ Power Supply ■ Other

**2008 Operating Expenses**



■ Power Supply ■ Other

**2007 Operating Expenses**



■ Power Supply ■ Other

#### *Other Revenues*

##### *2009 Compared to 2008*

Other Revenues were \$10 million lower in 2009 as compared to 2008. Interest Income was \$18 million lower due to significantly lower interest rates and lower securities lending income.

##### *2008 Compared to 2007*

Other Revenues were \$9 million lower in 2008 as compared to 2007. Interest Income was \$11 million lower due to lower interest rates and lower securities lending income, partially offset by a swap termination payment of approximately \$4 million. The lower revenues were partially offset by higher Other Income of about \$2 million.

#### *Interest Charges*

##### *2009 Compared to 2008*

Interest Charges in 2009 were \$41 million lower than in 2008, due mainly to a gain on the extinguishments of a portion of the NCGA long-term debt. This also resulted in lower Interest on Debt for 2009.

#### *2008 Compared to 2007*

Interest Charges in 2008 were \$17 million higher than in 2007, due mainly to higher interest on long-term debt from NCGA debt being outstanding for the entire year. Additionally, the amount of commercial paper notes outstanding during the year was higher than in 2007 resulting in more interest expense.

#### *Extraordinary Income*

SMUD also recognized Extraordinary Income in 2009 of \$17 million due to a natural gas anti-trust litigation settlement that was deferred from 2008, as compared to Extraordinary Income of \$10 million that was recognized in 2008 due to the natural gas anti-trust litigation and a bankruptcy settlement related to purchased power.

**SACRAMENTO MUNICIPAL UTILITY DISTRICT  
CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31,	
	2009	2008
	(thousands of dollars)	
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
Plant in service	\$ 4,342,758	\$ 4,186,435
Less accumulated depreciation and depletion	(1,608,459)	(1,496,838)
Plant in service - net	2,734,299	2,689,597
Construction work in progress	244,324	237,149
Total electric utility plant - net	2,978,623	2,926,746
<b>RESTRICTED AND DESIGNATED ASSETS</b>		
Revenue bond, debt service and construction reserves	208,663	260,893
Nuclear decommissioning trust fund	38,849	38,333
Rate stabilization fund	47,688	74,775
Securities lending collateral	5,247	31,400
Other funds	805	805
Less current portion	(98,757)	(132,087)
Total restricted and designated assets	202,495	274,119
<b>CURRENT ASSETS</b>		
Unrestricted cash and cash equivalents	257,648	192,289
Restricted and designated cash and cash equivalents	49,981	78,422
Restricted and designated investments	48,776	53,665
Receivables - net:		
Retail customers	150,811	145,147
Wholesale	40,743	42,397
Energy efficiency loans due within one year, interest receivable and other	25,008	21,556
Regulatory costs to be recovered within one year	98,980	98,363
Derivative financial instruments maturing within one year	18,856	10,222
Materials and supplies	47,526	54,294
Prepaid gas to be delivered within one year	22,114	22,102
Prepayments	25,873	20,099
Total current assets	786,316	738,556
<b>NONCURRENT ASSETS AND DEFERRED CHARGES</b>		
Regulatory costs for future recovery	265,338	267,608
Prepaid Gas	427,355	699,705
Advance capacity payments	21,713	26,631
Derivative financial instruments	38,761	52,620
Unamortized debt issuance costs	32,368	36,264
Energy efficiency loans - net	60,497	58,684
Preliminary project studies and other	13,635	17,735
Total noncurrent assets and deferred charges	859,667	1,159,247
<b>TOTAL ASSETS</b>	<b>\$ 4,827,101</b>	<b>\$ 5,098,668</b>

**SACRAMENTO MUNICIPAL UTILITY DISTRICT  
CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31,	
	2009	2008
	(thousands of dollars)	
<b>LIABILITIES</b>		
<b>LONG-TERM DEBT - net</b>	\$ 3,010,567	\$ 3,205,101
<b>CURRENT LIABILITIES AND DEFERRED CREDITS</b>		
Commercial paper notes	200,000	200,000
Accounts payable	77,105	85,718
Purchased power payable	70,491	69,491
Credit support collateral obligation	6,050	11,050
Long-term debt due within one year	106,775	103,845
Accrued decommissioning	6,913	6,913
Interest payable	46,299	52,995
Accrued salaries and compensated absences	33,943	32,212
Derivative financial instruments maturing within one year	93,471	82,934
Regulatory credits to be recognized within one year	13,549	31,018
Securities lending collateral obligation	5,247	31,400
Customer deposits and other	30,066	32,729
Total current liabilities and deferred credits	689,909	740,305
<b>NONCURRENT LIABILITIES AND DEFERRED CREDITS</b>		
Accrued decommissioning	158,436	170,572
Derivative financial instruments	137,948	158,754
Regulatory credits	271,482	288,445
Due to affiliated entity	13,041	10,572
Due to U.S. Bureau of Reclamation	6,400	5,508
Self insurance, deferred credits and other	23,384	8,862
Total noncurrent liabilities and deferred credits	610,691	642,713
<b>TOTAL LIABILITIES</b>	4,311,167	4,588,119
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	219,329	273,555
Restricted	86,321	121,797
Unrestricted	210,284	115,197
<b>TOTAL NET ASSETS</b>	515,934	510,549
<b>COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)</b>		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,827,101</b>	<b>\$ 5,098,668</b>

**SACRAMENTO MUNICIPAL UTILITY DISTRICT**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	Year Ended December 31,	
	2009	2008
	(thousands of dollars)	
<b>OPERATING REVENUES</b>		
Residential	\$ 514,320	\$ 517,127
Commercial and industrial	604,907	621,058
Street lighting and other	26,344	29,932
Wholesale	119,956	309,916
Senate Bill - 1 revenue (deferral)	722	(7,722)
Rate stabilization fund transfers	27,088	16,368
Total operating revenues	1,293,337	1,486,679
<b>OPERATING EXPENSES</b>		
Operations:		
Purchased power	339,310	446,302
Production	391,177	430,563
Transmission and distribution	50,175	50,005
Administrative, general and customer	142,860	136,457
Public good	47,784	44,802
Maintenance	74,706	76,284
Depreciation	150,811	143,980
Depletion	12,188	14,443
Decommissioning	421	4,700
Regulatory deferrals collected in rates	-0-	1,216
Total operating expenses	1,209,432	1,348,752
<b>OPERATING INCOME</b>	83,905	137,927
<b>NON-OPERATING REVENUES AND EXPENSES</b>		
Other revenues		
Interest income	12,326	29,841
Other income - net	15,725	8,524
Total other revenues	28,051	38,365
Interest charges		
Interest on debt	156,258	167,301
(Gain) or loss on debt extinguishment and refundings	(28,320)	287
Allowance for funds used during construction	(4,197)	(3,266)
Total interest charges	123,741	164,322
<b>INCREASE (DECREASE) IN NET ASSETS BEFORE EXTRAORDINARY INCOME</b>	(11,785)	11,970
<b>EXTRAORDINARY INCOME</b>		
Natural gas and power settlement proceeds	17,170	10,168
<b>INCREASE IN NET ASSETS</b>	5,385	22,138
NET ASSETS - BEGINNING OF YEAR	510,549	488,411
NET ASSETS - END OF YEAR	\$ 515,934	\$ 510,549



**SACRAMENTO MUNICIPAL UTILITY DISTRICT  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2009	2008
	(thousands of dollars)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from retail customers	\$ 1,127,952	\$ 1,155,303
Receipts from surplus power sales	59,225	170,335
Receipts from surplus gas sales	63,646	137,470
Receipts from steam sales	8,013	12,398
Natural gas and power settlement proceeds	702	26,636
Other receipts/payments	7,921	(4,508)
Repayment/receipts for credit support collateral, net	(8,450)	(28,650)
Issuance/repayment of energy efficiency loans, net	(5,313)	(9,007)
Payments to employees - payroll and other	(223,857)	(219,213)
Payments for wholesale power	(326,611)	(471,132)
Payments for gas purchases	(312,350)	(353,789)
Payments to vendors/others	(154,878)	(157,683)
Payments/receipts for weather hedge/insurance	(4,218)	22,097
Payments for decommissioning	(3,859)	(30,389)
Net cash provided by operating activities	227,923	249,868
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayment of debt	(24,085)	(18,665)
Proceeds from extinguishment of long-term debt	20,529	-0-
Receipts from federal and state grants	7,184	1,026
Other receipts	528	656
Interest on debt	(23,542)	(33,035)
Net cash used in noncapital financing activities	(19,386)	(50,018)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Construction expenditures	(211,234)	(224,300)
Contributions in aid of construction	18,813	18,972
Net proceeds from bond issues	310,276	738,910
Repayments and refundings of debt	(218,322)	(694,938)
Issuance of commercial paper	-0-	50,000
Interest on debt	(133,960)	(128,499)
Net cash used in capital financing activities	(234,427)	(239,855)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales and maturities of securities	239,480	300,861
Purchases of securities	(142,055)	(215,875)
Interest and dividends received	12,749	31,821
Securities lending collateral - net	(26,153)	(43,884)
Net cash provided by investing activities	84,021	72,923
Net increase in cash and cash equivalents	58,131	32,918
Cash and cash equivalents at the beginning of the year	412,708	379,790
Cash and cash equivalents at the end of the year	\$ 470,839	\$ 412,708
Cash and cash equivalents included in:		
Unrestricted cash and cash equivalents	\$ 257,648	\$ 192,289
Restricted and designated cash and cash equivalents	49,981	78,422
Revenue bond, debt service and construction reserves (a component of the total of \$208,663 and \$260,893 at December 31, 2009 and 2008, respectively)	163,210	141,997
Cash and cash equivalents at the end of the year	\$ 470,839	\$ 412,708

**SACRAMENTO MUNICIPAL UTILITY DISTRICT  
SUPPLEMENTAL CASH FLOW INFORMATION**

A reconciliation of the consolidated statements of cash flows operating activities to operating income is as follows:

	Year Ended December 31,	
	2009	2008
	(thousands of dollars)	
Operating income	\$ 83,905	\$ 137,927
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	150,811	143,980
Depletion	12,188	14,443
Regulatory deferrals collected in rates, including decommissioning	421	5,916
Amortization of advance capacity & other	5,431	4,990
Amortization of prepaid gas supply	21,350	22,220
Revenue (recognized from) deferred to regulatory credits, net	(28,447)	(9,816)
Natural gas and power settlement proceeds	702	26,636
Repayment/receipts for credit support collateral, net	(8,450)	(28,650)
Other receipts/payments	7,632	(217)
Changes in operating assets and liabilities:		
Customer and wholesale receivables	(2,749)	(9,636)
Energy efficiency loans	(5,313)	(9,007)
Other assets	4,016	(12,299)
Payables and accruals	(9,715)	(6,230)
Decommissioning	(3,859)	(30,389)
Net cash provided by operating activities	\$ 227,923	\$ 249,868

The supplemental disclosure of noncash financing and investing activities is as follows:

	Year Ended December 31,	
	2009	2008
	(thousands of dollars)	
Gain or (Loss) on debt extinguishment and refundings	7,791	(287)
Amortization of debt related costs	(2,355)	(3,496)
Unrealized holding gain or (loss)	(301)	197
Change in valuation of derivative financial instruments	(5,043)	(261,224)
Amortization of revenue for assets contributed in aid of construction	8,689	8,135
Allowance for funds used during construction	4,197	3,266
Construction costs included in accounts payable	32,443	29,284
Extinguishment of long-term debt	259,840	-0-
Partial termination of prepaid gas supply	(250,988)	-0-

**SACRAMENTO MUNICIPAL UTILITY DISTRICT**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION**

The Sacramento Municipal Utility District (SMUD) was formed and operates under the State of California Municipal Utility District Act (Act). The Act confers upon SMUD the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations, and under certain circumstances, to levy and collect ad valorem property taxes. As a public utility, SMUD is not subject to regulation or oversight by the California Public Utilities Commission. SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and a small adjoining portion of Placer County. The Board of Directors (Board) determines SMUD's rates. SMUD is exempt from payment of federal and state income taxes and real and personal property taxes.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Method of Accounting.* SMUD's accounting records are maintained in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification*<sup>™</sup>, sometimes referred to as the Codification or ASC. The FASB finalized the Codification for periods ending on or after September 15, 2009. Prior FASB standards like FASB No. 157, "Fair Value Measurements", are no longer being issued by the FASB. For further discussion of the Codification see "FASB Codification Discussion" in Management's Discussion and Analysis elsewhere in this report. SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC), except as it relates to the accounting for contributions of utility property in aid of construction. SMUD's consolidated financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Electric revenues and costs that are directly related to the acquisition, generation, transmission, and distribution of electricity are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent

assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*The Financial Reporting Entity.* These consolidated financial statements include SMUD and its component units. Although the component units are legally separate from SMUD, they are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. All significant inter-component transactions have been eliminated in consolidation.

*Component Units.* The component units include the Central Valley Financing Authority (CVFA), the Sacramento Cogeneration Authority (SCA), the Sacramento Power Authority (SPA), the Sacramento Municipal Utility District Financing Authority (SFA), and the Northern California Gas Authority No. 1 (NCGA). The primary purpose of CVFA, SCA, SPA and SFA is to own and operate electric utility plants that supply power to SMUD. The primary purpose of NCGA is to prepay for natural gas and to sell the natural gas to SMUD. SMUD's Board comprises the Commissions that govern these entities.

*Plant in Service.* The cost of additions to Plant in Service and replacement property units is capitalized. Repair and maintenance costs are charged to expense when incurred. When SMUD retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. The costs of removal and the related salvage value, if any, are charged or credited as appropriate to Accumulated Depreciation. SMUD generally computes depreciation on Plant in Service on a straight-line, service-life basis. The consolidated average annual composite depreciation rates for 2009 and 2008 were 3.72 and 3.69 percent, respectively. Depreciation is calculated using the following estimated lives:

Generation .....	5 to 90 years
Transmission and Distribution .....	5 to 50 years
General .....	2 to 50 years
Gas Pipeline .....	5 to 90 years

*Investments in Joint Power Agency (JPA).* SMUD's investment in the Transmission Agency of Northern California (TANC) is accounted for under the equity method of accounting and is reported as a component of Plant in Service. SMUD's share of the TANC debt service costs and operations and maintenance expense, inclusive of depreciation, is included in Transmission and Distribution expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

*Investments in Gas Properties.* SMUD has an approximate 23 percent non-operating ownership interest in the Rosa Unit gas properties in New Mexico of which, SMUD's portion of the extracted gas is transported for use in its component unit natural gas-fired power plants (see Note 6). SMUD uses the successful efforts method of accounting for its investment in gas producing properties. Costs to acquire mineral interests in gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized as a component of Plant in Service on the Consolidated Balance Sheets. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are

expensed. Capitalized costs of producing gas properties, after considering estimated residual salvage values, are depleted by the unit-of-production method based on the estimated future production of the proved developed producing wells. SMUD's investment in gas properties is reported as a component of Plant in Service.

*Restricted and Designated Assets.* Cash, cash equivalents, and investments, which are restricted under terms of certain agreements for payments to third parties or Board actions limiting the use of such funds, are included as restricted assets. When SMUD restricts funds for a specific purpose, and both restricted and unrestricted resources are available for use, it is SMUD's policy to use restricted resources first, then unrestricted resources as they are needed.

*Restricted Bond Funds.* SMUD's Indenture Agreements (Indenture) and Bond Resolutions require the maintenance of minimum levels of reserves for debt service and certain construction costs intended by the related debt offerings.

*Nuclear Decommissioning Trust Fund.* SMUD made annual contributions to its Nuclear Decommissioning Trust Fund (Trust Fund) to cover the cost of its primary decommissioning activities associated with the Rancho Seco facility. Primary decommissioning excludes activities associated with the spent fuel storage facility after 2008 and most non-radiological decommissioning tasks. SMUD determined early in 2008 that there were enough funds in the trust to complete the radiological decommissioning of the Rancho Seco nuclear plant site, and stopped contributing to the Trust Fund (see Note 13).

Interest earnings on the Trust Fund assets are recorded as Interest Income and are accumulated in the Trust Fund. Annual Decommissioning expense comprises SMUD's annual contribution to the Trust Fund and the interest earnings on Trust Fund assets during the year.

*Accrued Decommissioning.* SMUD accrues decommissioning costs related to Utility Plant when an obligation to decommission facilities is legally required. Adjustments are made to such liabilities based on estimates by SMUD staff in accordance with FASB ASC 410, *Asset Retirement and Environmental Obligations* (FASB ASC 410), (formerly known as Statement of Financial Accounting Standards (SFAS) No. 143, "*Accounting for Asset Retirement Obligations*" (ARO)). For active plants, such costs are included in the Utility Plant's cost and included as a component of Operating Expense over the Utility Plant's life. Expenditures for decommissioning activities are recorded as reductions to Accrued Decommissioning liability. Changes in the Rancho Seco decommissioning liability estimates arising from inflation, annual accretion, and other changes to the cost assumptions are recorded directly to Accrued Decommissioning with a corresponding adjustment to the related regulatory deferral. The current portion of the Accrued Decommissioning liability represents SMUD's estimate of actual expenditures in the next year, as set forth in the annual budget.

SMUD has identified potential retirement obligations related to certain generation, distribution and transmission facilities. SMUD's non-perpetual leased land rights generally are renewed continuously because SMUD intends to utilize these facilities indefinitely. Since the timing and extent of any

potential asset retirements are unknown, the fair value of any obligations associated with these facilities cannot be reasonably estimated. Accordingly, a liability has not been recorded.

At December 31, 2009 and 2008, SMUD's Accrued Decommissioning balance in the Consolidated Balance Sheets relating to Rancho Seco was \$158.8 million and \$171.4 million, respectively (see Note 13). The Accrued Decommissioning balance in the Consolidated Balance Sheets relating to other electricity generation and gas production facilities totaled \$6.5 million and \$6.1 million as of December 31, 2009 and 2008, respectively.

*Securities Lending Transactions.* SMUD lends its securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. SMUD policy requires cash collateral of 102 percent of the market value of the loaned securities. Both the investments purchased, with the collateral received, and the related liability to repay the collateral are included in the Consolidated Balance Sheets.

*Cash and Cash Equivalents.* Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, all investments in the Local Agency Investment Fund (LAIF), and money market mutual funds. LAIF has an equity interest in the State of California (State) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. SMUD's deposits with LAIF comprise cash representing demand deposits up to \$40.0 million maximum, and cash equivalents representing amounts above \$40.0 million which may be withdrawn once per month after a thirty-day period. The debt instruments and money market mutual funds are reported at amortized cost which approximates fair value, and the LAIF is reported at the value of its pool shares.

*Investments.* SMUD's investments are reported at fair value. Realized and unrealized gains and losses are included in Interest and Other Income in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. Premiums and discounts on zero coupon bonds are amortized using the effective interest method. Premiums and discounts on other securities are amortized using the straight-line method, which approximates the effective interest method.

*Electric Operating Revenues.* Electric revenues are billed on the basis of monthly cycle bills and are recorded as revenue when the electricity is delivered. SMUD records an estimate for unbilled revenues earned from the dates its retail customers were last billed to the end of the month. At December 31, 2009 and 2008, unbilled revenues were \$64.3 million and \$63.1 million, respectively.

*Purchased Power Expenses.* A portion of SMUD's power needs are provided through power purchase agreements. Expenses from such agreements, along with associated transmission costs paid to other utilities, are charged to Purchased Power expense on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets in the period the power is received. The costs, or credits, associated with energy swap agreements (gas and electricity) or other arrangements that affect the

net cost of Purchased Power are recognized in the period in which the underlying power delivery occurs. Contract termination payments and adjustments to prior billings are included in Purchased Power expense once the payments or adjustments can be reasonably estimated.

*Advanced Capacity Payments.* Some long-term agreements to purchase energy or capacity from other providers call for up-front payment. Such costs are generally recorded as an asset and amortized over the length of the contract.

*Credit and Market Risk.* SMUD enters into forward purchase and sales commitments for physical delivery of gas and electricity with utilities and power marketers. SMUD is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of these contractual agreements. In order to limit the risk of counterparty default, SMUD has a wholesale counterparty evaluation policy which includes the assignment of internal credit ratings to SMUD's counterparties based on counterparty and/or debt ratings, the requirement for credit enhancements for counterparties that do not meet an acceptable risk level, and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. SMUD is also subject to similar requirements for many of its gas and electricity purchase agreements. As of December 31, 2009 and 2008, SMUD held \$6.1 million and \$11.1 million, respectively, on deposit by counterparties. The amount is recorded as unrestricted cash with an associated short-term and long-term liability. At December 31, 2009, SMUD had \$11.0 million in collateral on deposit with counterparties. SMUD has a \$50 million letter of credit facility to support collateral requirements under SMUD's various energy and natural gas purchase, sale and swap agreements.

*Accounts Receivable and Allowance for Doubtful Accounts.* Accounts Receivable is recorded at the invoiced amount and does not bear interest, except for accounts related to energy efficiency loans. SMUD recognizes an estimate of uncollectible accounts for its receivables related to electric service, wholesale activities, and energy efficiency loans based upon its historical experience with collections and current energy market conditions. For large wholesale receivable balances, SMUD determines its bad debt reserves based on the specific credit issues for each account. SMUD records bad debts for its estimated uncollectible accounts related to electric service and wholesale activities as a reduction to the related operating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. SMUD records bad debts for its estimated uncollectible accounts related to energy efficiency loans in Administrative, General and Customer expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

The summarized activity of the changes in the allowance for doubtful accounts during 2009 and 2008 is presented below (thousand of dollars):

	<u>Balance at beginning of Year</u>	<u>Additions</u>	<u>Write-offs and Recoveries</u>	<u>Balance at end of Year</u>
California ISO and PX:				
December 31, 2009.....	\$ 24,582	\$ 237	\$ 971	\$ 23,848
December 31, 2008.....	\$ 24,242	\$ 388	\$ 48	\$ 24,582
Wholesale Power and Other:				
December 31, 2009.....	\$ 1,681	\$ 400	\$ 563	\$ 1,518
December 31, 2008.....	\$ 1,249	\$ 640	\$ 208	\$ 1,681
Retail Customers:				
December 31, 2009.....	\$ 2,882	\$ 6,617	\$ 5,951	\$ 3,548
December 31, 2008.....	\$ 4,179	\$ 4,600	\$ 5,897	\$ 2,882
Energy Efficiency Loans:				
December 31, 2009.....	\$ 2,349	\$ 2,351	\$ 1,722	\$ 2,978
December 31, 2008.....	\$ 1,729	\$ 2,052	\$ 1,432	\$ 2,349

*Regulatory Deferrals.* The Board has the authority to establish the level of rates charged for all SMUD services. As a regulated entity, SMUD's financial statements are prepared in accordance with FASB ASC 980, *Regulated Operations* (FASB ASC 980), formerly known as SFAS 71, "*Accounting for the Effects of Certain Types of Regulation*", which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in Net Increase (Decrease) in Net Assets as incurred, are recognized when included in rates and recovered from, or refunded to, customers. SMUD records various regulatory assets and credits to reflect rate-making actions of the Board.

*Materials and Supplies.* Materials and supplies are stated at average cost, which approximates the first-in, first-out method.

*Unamortized Debt Issuance Costs.* The costs incurred in connection with the issuance of debt obligations, principally underwriters fees and legal costs, are recorded as Unamortized Debt Issuance Costs in the Consolidated Balance Sheets and are amortized over the terms of the related obligations using the effective interest method.

*Compensated Absences.* SMUD accrues vacation leave and compensatory time when employees earn the rights to the benefits. SMUD does not record sick leave or other leave as a liability until it is taken by the employee, since there are no cash payments for sick leave or other leave made when



employees terminate or retire. At December 31, 2009 and 2008, the total estimated liability for vacation and other compensated absences was \$24.4 million and \$23.5 million, respectively.

*Public Good.* Public Good expenses consist of non-capital expenditures for energy efficiency programs, low income subsidies, renewable energy resources and technologies research and development.

*Gains/Losses on Bond Refundings.* Gains and losses resulting from bond refundings are included as a component of Long-Term Debt on the Consolidated Balance Sheets and amortized as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets over the shorter of the life of the refunded debt or the new debt using the effective interest method.

*Gains/Losses on Bond Defeasances or Extinguishments.* Gains and losses resulting from bond defeasances or extinguishments that were not financed with the issuance of new debt are included as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

*Allowance for Funds Used During Construction (AFUDC).* SMUD capitalizes, as an additional cost of Construction Work In Progress (CWIP), AFUDC, which represents the cost of borrowed funds used for such purposes. The amount capitalized is determined by a formula prescribed by FERC. The AFUDC rates for 2009 and 2008 were 3.5 percent and 3.2 percent, respectively, of eligible CWIP.

*Derivative Financial Instruments.* SMUD records derivative financial instruments (interest rate swap and gas price swap agreements, certain wholesale sales agreements, certain electricity purchase agreements and option agreements) at fair value on its Consolidated Balance Sheets. SMUD generally does not enter into agreements for trading purposes; however, SMUD does not elect hedge accounting. Fair market value is estimated by comparing contract prices to forward market prices quoted by third party market participants and/or provided in relevant industry publications. The Board defers recognition of the unrealized gains or losses from such instruments for rate-making purposes. SMUD is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated. SMUD reports derivative financial instruments with remaining maturities of one year or less and the portion of long-term contracts with scheduled transactions over the next twelve months as current on the Consolidated Balance Sheets.

*Interest Rate Swap Agreements.* SMUD enters into interest rate swap agreements to modify the effective interest rates on outstanding debt. Interest expense is reported net of the swap payments received or paid as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

*Gas and Electricity Price Swap and Option Agreements.* SMUD uses forward contracts to hedge the impact of market volatility on gas commodity prices for its gas-fueled power plants and for energy prices on purchased power for SMUD's retail load. Net cash payments or receipts incurred under the price swap and option agreements are reported as a component of Production for fuel related contracts

and Purchased Power for electricity contracts in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets over the periods of the agreements.

*Precipitation Hedge Agreements.* SMUD enters into non-exchange traded precipitation hedge agreements to hedge the increased cost of power caused by low precipitation years (Precipitation Agreements). SMUD records the intrinsic value of the Precipitation Agreements on the Consolidated Balance Sheets. Settlement of the Precipitation Agreements is not performed until the end of the period covered (water year ended September 30). The intrinsic value of a Precipitation Agreement is the difference between the expected results from a monthly allocation of the cumulative rainfall amounts, in an average rainfall year, and the actual rainfall during the same period.

*Insurance Programs.* SMUD records liabilities for unpaid claims at their present value when they are probable in occurrence and the amount can be reasonably estimated. SMUD records a liability for unpaid claims associated with general, auto, workers' compensation, and short-term and long-term disability based upon estimates derived by SMUD's claims administrator or SMUD staff. The liability comprises the present value of the claims outstanding, and includes an amount for claim events incurred but not reported based upon SMUD's experience.

*Net Assets.* SMUD classifies its net assets into three components as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of Accumulated Depreciation reduced by the outstanding debt balances, net of unamortized debt expenses.
- Restricted – This component consists of net assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in net capital, above), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Board.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "invested in capital, net of related debt" or "restricted."

*Contributions in Aid of Construction (CIAC).* SMUD records CIAC from customer contributions, primarily relating to expansions to SMUD's distribution facilities, as Non-Operating Revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. Contributions of capital are valued at estimated market cost. For rate-making purposes, the Board does not recognize such revenues when received; rather, CIAC is included in revenues as such costs are amortized over the estimated useful lives of the related distribution facilities.

*Grants.* SMUD receives grant proceeds from federal and state assisted programs for its advanced and renewable technologies, electric vehicle, and energy efficiency programs. SMUD also periodically receives grant proceeds from federal or state assistance programs as partial reimbursements for costs it has incurred as a result of storm damages. When applicable, these programs may be subject to financial and compliance audits pursuant to regulatory requirements. SMUD considers the possibility of

any material disallowances to be remote. During 2009 and 2008, SMUD recognized grant proceeds of \$4.9 million and \$1.1 million, respectively, as a component of Interest and Other Income, in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. In 2009, SMUD issued taxable Build America Bonds. SMUD will receive an interest subsidy from the federal government equal to 35 percent of the interest paid. (Note 10) In 2009, SMUD recognized \$2.8 million in revenues for its Build America Bonds, as a component of Interest and Other Income, in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

*Extraordinary Income.* During 2008 and 2009, SMUD received several settlements that were considered extraordinary income. SMUD was involved in a natural gas antitrust litigation settlement, and received \$9.4 million in June 2008, and an additional \$16.5 million in December 2008. The \$9.4 million was recorded as an extraordinary item in 2008, and passed through to the component units. The Board opted to defer \$16.5 million to be recognized as revenue in 2009 for rate-making purposes. The deferred amount was recognized equally in January through March of 2009, and an additional \$0.4 million was received in 2009 related to the litigation. SMUD also received \$0.3 million in 2009 and \$0.7 million in 2008 related to a bankruptcy claim related to sales into the California market that were related to gaming activities. This amount was for purchased power, and was not passed through to the component units.

*Customer Sales and Excise Taxes.* SMUD is required by various governmental authorities, including states and municipalities, to collect and remit taxes on certain customer sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

*Termination Benefits.* Termination benefits are benefits provided to employees as an incentive to hasten the termination of services, as a result of a voluntary early termination, or as a consequence of involuntary early termination.

SMUD has identified a termination benefit liability related to certain employees at the Rancho Seco site, which will complete non-radiological decommissioning in 2012. There are voluntary separation programs and retention agreements for certain employees, and if required reductions have not been achieved, an involuntary separation program will be instituted. Benefits provided include up to six months of paid Consolidated Omnibus Reconciliation Act of 1985 (COBRA) medical benefits, outplacement services, and severance, based on length of service and type of termination agreement. Employees with sufficient length of service are eligible for Other Post Employment Benefits (OPEB) after termination. As of December 31, 2009, seven employees had retention agreements totaling \$0.3 million, recorded as a component of Customer Deposits and Other on the Consolidated Balance Sheets.

In October 2009, SMUD announced that the installation of "Smart Meters" would affect certain job classifications. A separation package and talent retention program was outlined with employees. Benefits provided include up to 12 weeks of paid leave, plus pay in lieu of benefits for up to 12 weeks.

Because the affected employees must work through August 2010, the amount of the termination liability is being recognized ratably on a monthly basis through August 2010. As of December 31, 2009, there were approximately 98 positions affected, and SMUD had a termination liability of \$0.3 million, recorded as a component of Customer Deposits and Other on the Consolidated Balance Sheets.

*Reclassifications.* Certain amounts in the 2008 consolidated financial statements have been reclassified in order to conform to the 2009 presentation.

*Recent Accounting Pronouncements.* In November 2006, GASB issued Statement of Government Accounting Standards (SGAS) No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations"* (GASB No. 49). GASB No. 49 requires local governments to provide the public with better information about the financial impact of environmental cleanups. A government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and if certain events have occurred. This statement was effective for SMUD beginning in 2008. In December 2009, SMUD identified a pollution remediation obligation at its North City Substation. This substation was built on a former landfill, and the site requires remediation. As part of the 2010 Budget Resolution, the Board authorized SMUD to defer the expense for rate-making purposes, and SMUD recorded a pollution remediation liability of \$12.0 million and a corresponding regulatory asset for the remediation project. See Note 8.

In June 2007, GASB issued SGAS No. 51, *"Accounting and Financial Reporting for Intangible Assets"* (GASB No. 51). GASB No. 51 provides guidance regarding how to identify, account for and report intangible assets. Intangible assets are defined as assets that lack physical substance, are non-financial in nature, and have an initial useful life extending beyond a single reporting period. The statement provides that intangible assets be classified as capital assets, except for items explicitly excluded from the scope of the standard. This statement is effective for SMUD beginning in 2010. SMUD has assessed the financial statement impact of adopting the new statement, and its impact will not be material.

In June 2008, GASB issued SGAS No. 53, *"Accounting and Financial Reporting for Derivative Instruments"* (GASB No. 53). GASB No. 53 provides a comprehensive framework for the measurement, recognition and disclosure of derivative financial instrument transactions entered into by state and local governments. The statement requires that all derivative financial instruments be measured at fair value which will be reported on the Balance Sheet, and that all derivative financial instruments are tested for effectiveness. The change in valuation of ineffective hedges should be reported as Investment Revenue on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. This statement is effective for SMUD beginning in 2010. Currently, SMUD follows FASB ASC 815, *Derivatives and Hedging* (FASB ASC 815), formerly known as SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*, and does not elect hedge accounting. SMUD is currently assessing the financial statement impact of adopting this portion of the statement, but does not believe that its impact will be material.

In March 2009, GASB issued SGAS No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" (GASB No. 55). GASB No. 55 incorporates the hierarchy of GAAP for state and local governments into the GASB's authoritative literature. Prior to this standard, the GAAP hierarchy was included in an American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards, rather than in the GASB's literature. This statement was effective for SMUD upon issuance and will not have a material impact on SMUD's financial statements.

In March 2009, GASB issued SGAS No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards" (GASB No. 56). GASB No. 56 incorporates certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards into the GASB's authoritative literature. This statement was effective for SMUD upon issuance and will not have a material impact on SMUD's financial statements.

In December 2009, GASB issued SGAS No. 57, "OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans" (GASB No. 57). GASB No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. The statement amends previous GASB statements on OPEB plans, and will improve the consistency of reporting for OPEB plans. This statement is effective for SMUD for 2012. SMUD is currently assessing the financial statement impact of adopting this portion of the statement, but does not believe that its impact will be material.

In September 2006, the FASB issued FASB ASC 820, *Fair Value Measurements and Disclosures* (FASB ASC 820), formerly known as SFAS No. 157, "*Fair Value Measurements*". FASB ASC 820 provides guidance for using fair value to measure assets and liabilities. The statement clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. The statement also establishes a fair value hierarchy that prioritizes the information used to develop these assumptions. This statement was effective for SMUD beginning in 2008 (see Note 3).

Effective in 2009, SMUD adopted an amendment to FASB ASC 820, formerly known as FASB Staff Position FAS 157-2 "*Effective Date of FASB Statement No. 157*," which requires calculation of the fair market value of AROs that are measured on a nonrecurring basis. See Note 12.

In March 2008, FASB amended FASB ASC 815. FASB ASC 815 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding a company's hedging strategies, the impact on financial position, financial performance and cash flows. To achieve this increased transparency, FASB ASC 815 requires (1) the disclosure of the rationale for hedging; (2) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (3) the disclosure of derivative features that are credit risk-related; and (4) cross-referencing within the footnotes. FASB ASC 815 was effective for SMUD on January 1, 2009. Refer to Note 9

In May 2009, the FASB issued FASB ASC 855, *Subsequent Events* (FASB ASC 855). FASB ASC 855 establishes standards of accounting and disclosure for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement introduces the concept of financial statements being “available to be issued”, and requires that an entity disclose the date that through which it has evaluated subsequent events. This statement is effective for SMUD for 2009. Subsequent events for SMUD have been evaluated through February 19, 2010, which is the date that the financial statements were available to be issued.

In June 2009, the FASB issued FASB ASC 105, *Generally Accepted Accounting Principles* (FASB ASC 105), which establishes the FASB Accounting Standards Codification as the sole source of authoritative GAAP. Pursuant to the provisions of FASB ASC 105, SMUD has updated references to GAAP in its financial statements issued for the period ended December 31, 2009. The adoption of FASB ASC 105 did not impact SMUD’s financial position or results of operations.

In August 2009, the FASB Issued Accounting Standards Update (ASU) No. 2009-05, *Fair Value Measurements and Disclosures relating to FASB ASC 820*. This update requires that the fair value of liabilities be measured under the assumption that the liability is transferred to a market participant, and provides guidance on how to estimate the fair value of a liability. This statement is effective for SMUD in 2009.

### **NOTE 3. ACCOUNTING CHANGE**

*FASB ASC 820*. Effective January 1, 2008, SMUD adopted FASB ASC 820, prospectively, for interest rate swap agreements and natural gas and electricity derivative financial instruments that are measured at fair value on a recurring basis. The effective date for AROs that are measured at fair value on a nonrecurring basis is January 1, 2009.

FASB ASC 820 provides a new definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. FASB ASC 820 classifies valuation techniques into three categories: market approach, income approach and cost approach. There are two types of inputs to the valuation techniques: observable inputs based on market data obtained from independent sources, and unobservable inputs reflecting SMUD’s own assumptions developed from the best information available in the circumstances. FASB ASC 820 requires separate disclosures of assets or liabilities that are measured at fair value on a recurring basis versus items that are measured at fair value on a nonrecurring basis. The disclosures are presented in a table displaying the major categories of assets and liabilities measured at fair value, separated into the level of the hierarchy on which the fair value is based. Additional disclosure information is required for fair values based on Level 3 inputs, including a

rollforward analysis and disclosure of unrealized gains and losses. These additional disclosures are provided in Note 12.

#### NOTE 4. UTILITY PLANT

The summarized activity of SMUD's utility plant during 2009 is presented below (thousands of dollars):

	Balance December 31, 2008	Additions	Transfers and Deletions	Balance December 31, 2009
Nondepreciable Utility Plant:				
Land .....	\$ 96,859	\$ 5,869	\$ (1,470)	\$ 101,258
CWIP .....	<u>237,149</u>	<u>213,358</u>	<u>(206,183)</u>	<u>244,324</u>
Total nondepreciable utility plant	<u>334,008</u>	<u>219,227</u>	<u>(207,653)</u>	<u>345,582</u>
Depreciable Utility Plant:				
Generation .....	1,386,758	41,081	(4,508)	1,423,331
Transmission .....	204,739	21,801	(5,317)	221,223
Distribution .....	1,501,004	93,278	(6,546)	1,587,736
Investment in gas properties	180,561	6,263	-0-	186,824
Investment in JPAs .....	11,836	-0-	(1,445)	10,391
General .....	<u>804,678</u>	<u>42,657</u>	<u>(35,340)</u>	<u>811,995</u>
	4,089,576	205,080	(53,156)	4,241,500
Less: accumulated depreciation and depletion .....	(1,493,316)	(162,578)	51,270	(1,604,624)
Less: accumulated amortization on JPAs .....	<u>(3,522)</u>	<u>(313)</u>	<u>-0-</u>	<u>(3,835)</u>
	(1,496,838)	(162,891)	51,270	(1,608,459)
Total depreciable plant .....	<u>2,592,738</u>	<u>42,189</u>	<u>(1,886)</u>	<u>2,633,041</u>
Total Utility Plant - net .....	<u>\$ 2,926,746</u>	<u>\$ 261,416</u>	<u>\$ (209,539)</u>	<u>\$ 2,978,623</u>

The summarized activity of SMUD's utility plant during 2008 is presented below (thousands of dollars):

	Balance December 31, 2007	Additions	Transfers and Deletions	Balance December 31, 2008
Nondepreciable Utility Plant:				
Land .....	\$ 90,250	\$ 6,612	\$ (3)	\$ 96,859
CWIP .....	249,325	204,663	(216,839)	237,149
Total nondepreciable utility plant	<u>339,575</u>	<u>211,275</u>	<u>(216,842)</u>	<u>334,008</u>
Depreciable Utility Plant:				
Generation .....	1,373,544	18,163	(4,949)	1,386,758
Transmission .....	201,163	6,601	(3,025)	204,739
Distribution .....	1,398,068	113,328	(10,392)	1,501,004
Investment in gas properties	172,015	8,546	-0-	180,561
Investment in JPAs .....	10,323	1,513	-0-	11,836
General .....	<u>756,663</u>	<u>57,864</u>	<u>(9,849)</u>	<u>804,678</u>
	3,911,776	206,015	(28,215)	4,089,576
Less: accumulated depreciation and depletion .....	(1,365,821)	(158,553)	31,058	(1,493,316)
Less: accumulated amortization on JPAs .....	<u>(3,209)</u>	<u>(313)</u>	<u>-0-</u>	<u>(3,522)</u>
	(1,369,030)	(158,866)	31,058	(1,496,838)
Total depreciable plant .....	<u>2,542,746</u>	<u>47,149</u>	<u>2,843</u>	<u>2,592,738</u>
Total Utility Plant - net .....	<u>\$ 2,882,321</u>	<u>\$ 258,424</u>	<u>\$ (213,999)</u>	<u>\$ 2,926,746</u>

#### NOTE 5. INVESTMENT IN JOINT POWERS AGENCY

**TANC.** SMUD and fourteen other California municipal utilities are members of TANC, a JPA. TANC, along with the other California municipal utilities, own and operate the California-Oregon Transmission Project (COTP), a 500-kilovolt transmission line between central California and southern Oregon. SMUD is obligated to pay approximately 30.0 percent of TANC's COTP debt service and operations costs in exchange for entitlement to approximately 419 megawatts (MW) of TANC's 1,390 MW transfer capability. Additionally, SMUD has a 48 MW share of TANC's 300 MW firm, bi-directional transmission over Pacific Gas and Electric's (PG&E) system between PG&E's Tesla and Midway substations (SOT).

In October 2007, TANC entered into a sales and purchase agreement with the City of Vernon (Vernon) whereby TANC purchased entitlement, rights, title and interest in Vernon's COTP transmission assets (approximately 121 MW North-to-South). The assignment and transfer of Vernon's COTP entitlement occurred in April 2008. SMUD received an additional entitlement to 36 MW of the COTP and 2 MW of SOT, both of which are included in the 419 MW COTP and 48 MW SOT totals, respectively. In December 2009, SMUD entered into a long-term reallocation agreement with TANC and the City of



Santa Clara. Effective January 2010, through 2013, SMUD will have an additional 30 MW, which will make SMUD's entitlement a 78 MW share of the SOT.

The long-term debt of TANC, which totals \$435.8 million (unaudited) at December 31, 2009, is collateralized by a pledge and assignment of net revenues of TANC supported by take-or-pay commitments of SMUD and other members. Should other members default on their obligations to TANC, SMUD would be required to make additional payments to cover a portion of such defaulted payments, up to 25 percent of its current obligation.

Copies of the TANC annual financial reports may be obtained from SMUD at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

SMUD recorded transmission expenses related to TANC of \$18.0 million and \$15.7 million in 2009 and 2008, respectively.

Summary financial information for TANC is presented below:

	December 31,	
	2009	2008
	(Unaudited)	(Unaudited)
	(thousands of dollars)	
Total assets .....	\$ 491,624	\$ 484,878
Total liabilities .....	\$ 488,030	\$ 476,599
Total net assets .....	3,594	8,279
Total liabilities and net assets.....	\$ 491,624	\$ 484,878
Changes in net assets for the six months ended December 31 .....	\$ (82)	\$ (1,919)

*Balancing Authority of Northern California (BANC).* SMUD and three other California municipal utilities formed BANC, a JPA, in 2009. BANC was formed to perform North American Electric Reliability Corporation (NERC) functions that would otherwise be performed by the BANC members or on their behalf.

Summary financial information for BANC is presented below:

	December 31,
	2009
	(Unaudited)
	(thousands of dollars)
Total assets .....	\$ 172
Total liabilities .....	\$ 172
Total net assets .....	\$ -0-
Total liabilities and net assets.....	\$ 172
Changes in net assets for the five months ended December 31 .....	\$ -0-

SMUD recorded expenses related to BANC of \$0.15 million in 2009.

## **NOTE 6. COMPONENT UNITS**

*CVFA Carson Cogeneration Project.* CVFA is a JPA formed by SMUD and the Sacramento Regional County Sanitation District. CVFA operates the Carson Project, a 57 MW (net) natural gas-fired cogeneration facility and a 43 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the CVFA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and CVFA.

*SCA Procter & Gamble Cogeneration Project.* SCA is a JPA formed by SMUD and the SFA. SCA operates the Procter & Gamble Project, a 136 MW (net) natural gas-fired cogeneration facility and a 44 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the SCA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and SCA.

*SFA Cosumnes Power Plant Project.* SFA is a JPA formed by SMUD and the Modesto Irrigation District. SFA operates the Cosumnes Power Plant Project, a 501 MW (net) natural gas-fired, combined cycle facility, which is financed primarily by SFA non-recourse revenue bonds.

*SPA Campbell Soup Cogeneration Project.* SPA is a JPA formed by SMUD and the SFA. SPA operates the Campbell Soup Project, a 160 MW (net) natural gas-fired cogeneration facility, which is financed primarily by SPA non-recourse revenue bonds, and the McClellan Project, a 72 MW (net) natural gas-fired simple cycle peaking plant.

*NCGA.* NCGA is a JPA formed by SMUD and the SFA. NCGA has a twenty-year prepaid gas contract with Morgan Stanley Capital Group (MSCG), which is financed primarily by NCGA non-recourse revenue bonds. SMUD has contracted with NCGA to purchase all of the gas delivered to NCGA pursuant to the gas contract with MSCG. NCGA is obligated to pay the principal and interest on the bonds. SMUD is obligated to purchase and pay for gas tendered for delivery by NCGA at market prices and is not obligated to make payments in respect to debt service on the bonds. In January and August 2009, some NCGA bonds were extinguished.

As described in Note 2, all of the activities and balances of the component units are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. Copies of CVFA's, SCA's, SPA's, SFA's and NCGA's annual financial reports may be obtained from their Executive Office at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

## **NOTE 7. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

*Cash Equivalents and Investments.* SMUD's investment policies are governed by the California State and Municipal Codes and its Indenture, which restricts SMUD's investment securities to obligations which are unconditionally guaranteed by the United States (U.S.) Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; certificates of deposit; repurchase agreements; and taxable government and tax-exempt money market portfolios. SMUD's investment policy includes restrictions for investments

relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

*Credit Risk.* To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, SMUD limits investments to those rated, at a minimum, "A-1" or equivalent for commercial paper and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

*Custodial Credit Risk.* This is the risk that, in the event of the failure of a depository financial institution or counterparty to a transaction, SMUD's deposits may not be returned or SMUD will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. SMUD does not have a deposit policy for custodial credit risk. At December 31, 2009, \$5.2 million in money market funds, and at December 31, 2008 \$31.4 million in repurchase agreements, were held by a counterparty that was acting as SMUD's agent in securities lending transactions.

On October 14, 2008, the Federal Deposit Insurance Corporation (FDIC) announced a temporary Transaction Account Guarantee Program, which will provide full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions which agree to participate in the program. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until December 31, 2009. Due to this temporary program, all of SMUD's commercial cash deposits were fully insured at December 31, 2009. The bank balance is also, per a depository pledge agreement between SMUD and SMUD's bank, collateralized at 649 percent of the collected funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by FDIC). SMUD's investments are held in SMUD's name.

*Concentration of Credit Risk.* This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. SMUD places no limit on the amounts invested in any one issuer for repurchase agreements and federal agency securities. The following are the concentrations of risk greater than five percent in either year:

Investment Type:	December 31,	
	2009	2008
Federal National Mortgage Association (Fannie Mae) .....	5%	0%
Federal Home Loan Banks .....	5%	8%
Federal Home Loan Mortgage Corporation (Freddie Mac) .....	0%	6%
Banker's Acceptance – Bank of America .....	0%	5%
Commercial Paper – General Electric.....	0%	5%
CS First Boston Repurchase Agreements .....	0%	5%
Federal Farm Credit Bonds .....	0%	5%
Certificate of Deposit – US Bank.....	0%	7%
Certificate of Deposit – Bank of the West.....	0%	5%

*Interest Rate Risk.* This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Though SMUD has restrictions as to the maturities of some of the investments, it

does not have a formal policy that limits investment maturities as means of managing its exposure to fair value losses arising from increasing interest rates.

*Securities Lending Transactions.* SMUD is authorized by its investment policy and by California Government Code to enter into securities lending agreements for up to 20 percent of its investment portfolio, not to exceed \$75.0 million, only with counterparties that are primary dealers of the Federal Reserve Bank of New York. There have been no violations of the provisions of the authorization during 2009 or 2008. The maturities of the investments made match the maturities of the securities loaned, which are U.S. Treasuries and Agencies. At December 31, 2009 and 2008, SMUD had no credit risk exposure to borrowers because the amount SMUD owes the borrowers exceeds the amounts the borrowers owe SMUD. The contract with SMUD's custodial bank requires it to indemnify SMUD if the borrowers fail to return the securities (and the collateral is inadequate to replace the securities lent), or fail to pay SMUD for income distributions by the securities' issuers while the securities were on loan. SMUD cannot pledge or sell collateral securities without borrower default. SMUD receives cash collateral and invests in certain securities allowed for in the securities lending agreement. These investments were in money market funds in the amount of \$5.2 million as of December 31, 2009. The fair market value equals the carrying amount for the money market funds.

*Interest Rate Swap Agreement.* SMUD had a variable-to-variable rate swap agreement with an initial notional amount of \$100.0 million for the purpose of exchanging earnings on short-term assets in the investment portfolio for earnings based on a longer term investment rate without sacrificing liquidity. The swap agreement would have expired in June 2016. Under the terms of the swap agreement, SMUD paid a variable rate equal to the 90-day London Interbank Offered Rates (LIBOR) rate and receives a variable rate of the 10-year LIBOR minus 0.347 percent. The Standard and Poor's (S&P) credit rating of the counterparty was AA-. This swap was terminated by SMUD on January 3, 2008. SMUD received a \$3.7 million termination payment.

The following schedules indicate the credit and interest rate risk at December 31, 2009 and 2008. The credit ratings listed are from S&P. (N/A is defined as not applicable to the rating disclosure requirements).

At December 31, 2009, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturities (in years)			Total Fair Value
		Less Than 1	1-5	More than 5	
(thousands of dollars)					
Cash and Cash Equivalents:					
Cash Deposits .....	N/A	\$ 10,544	\$ -0-	\$ -0-	\$ 10,544
LAIF .....	Not Rated	255,056	-0-	-0-	255,056
Money Market Mutual Funds.....	AAAm	141,959	-0-	-0-	141,959
Fannie Mae.....	AAAm	17,999	-0-	-0-	17,999
Bankers Acceptance.....	A-1+	4,100	-0-	-0-	4,100
Commercial Paper .....	A-1	35,934	-0-	-0-	35,934
Money Market Funds .....	AAA	<u>5,247</u>	<u>-0-</u>	<u>-0-</u>	<u>5,247</u>
Total cash and cash equivalents ....		470,839	-0-	-0-	470,839
Investments:					
Fannie Mae.....	AAA	-0-	9,972	-0-	9,972
Federal Home Loan Banks.....	AAA	20,007	10,028	-0-	30,035
Freddie Mac.....	AAA	-0-	2,164	-0-	2,164
Bankers Acceptance.....	A-1+	9,998	-0-	-0-	9,998
United States Treasuries.....	N/A	-0-	20,667	-0-	20,667
Corporate Note .....	AAA/AA+	<u>-0-</u>	<u>15,225</u>	<u>-0-</u>	<u>15,225</u>
Total investments .....		<u>30,005</u>	<u>58,056</u>	<u>-0-</u>	<u>88,061</u>
Total cash, cash equivalents, and investments		\$ 500,844	\$ 58,056	\$ -0-	\$ 558,900

At December 31, 2008, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturities (in years)			Total Fair Value
		Less Than 1	1-5	More than 5	
		(thousands of dollars)			
Cash and Cash Equivalents:					
LAIF .....	Not Rated	\$ 83,715	\$ -0-	\$ -0-	\$ 83,715
Money Market Mutual Funds.....	AAAm	156,227	-0-	-0-	156,227
Certificates of Deposits.....	A-1	70,000	-0-	-0-	70,000
Bankers Acceptance.....	A-1+	31,779	-0-	-0-	31,779
Commercial Paper .....	A-1+	36,383	-0-	-0-	36,383
Repurchase Agreements .....	AAA	31,400	-0-	-0-	31,400
Corporate Note .....	A+	<u>3,204</u>	<u>-0-</u>	<u>-0-</u>	<u>3,204</u>
Total cash and cash equivalents ....		412,708	-0-	-0-	412,708
Investments:					
Fannie Mae.....	AAA	20,010	-0-	-0-	20,010
Federal Farm Credit Bonds.....	AAA	-0-	31,019	-0-	31,019
Federal Home Loan Banks.....	AAA/P-1	50,191	-0-	-0-	50,191
Freddie Mac.....	AAA/P-1	20,945	15,780	-0-	36,725
United States Treasuries.....	N/A	-0-	10,170	-0-	10,170
Commercial Paper .....	A-1+	4,997	-0-	-0-	4,997
Corporate Note .....	AAA/A	<u>-0-</u>	<u>32,675</u>	<u>-0-</u>	<u>32,675</u>
Total investments .....		<u>96,143</u>	<u>89,644</u>	<u>-0-</u>	<u>185,787</u>
Total cash, cash equivalents, and investments		<u>\$ 508,851</u>	<u>\$ 89,644</u>	<u>\$ -0-</u>	<u>\$ 598,495</u>

At December 31, 2008, SMUD reported its book overdraft of \$0.9 million as a component of Accounts Payable on the Consolidated Balance Sheets. There was no book overdraft at December 31, 2009.

SMUD's cash, cash equivalents, and investments are classified in the Consolidated Balance Sheets as follows:

	December 31,	
	2009	2008
	(thousands of dollars)	
Total Cash, Cash Equivalents, and Investments:		
Revenue bond reserve, debt service and construction funds:		
Revenue bond reserve fund .....	\$ 56,740	\$ 61,285
Debt service fund.....	48,026	52,915
Component unit bond reserve and construction funds.....	<u>103,897</u>	<u>146,693</u>
Total revenue bond reserve, debt service and construction funds	208,663	260,893
Nuclear decommissioning trust fund.....	38,849	38,333
Rate stabilization fund.....	47,688	74,775
Securities lending collateral .....	5,247	31,400
Other restricted funds .....	805	805
Unrestricted funds .....	<u>257,648</u>	<u>192,289</u>
Total cash, cash equivalents, and investments .....	<u>\$ 558,900</u>	<u>\$598,495</u>

## NOTE 8. REGULATORY DEFERRALS

The Board has taken various regulatory actions that result in differences between the recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized in the tables below. Changes to these balances, and their inclusion in rates, occur only at the direction of the Board.

### Regulatory Assets (Costs)

*Decommissioning.* SMUD's regulatory asset relating to the unfunded portion of its decommissioning liability is being collected through interest earnings on the Trust Fund. Nuclear fuel storage costs and non-radiological decommissioning costs are being collected in rates starting in 2009.

*Wholesale Power Receivables.* SMUD's regulatory asset relating to its wholesale receivables that were fully reserved as uncollectible in 2001. These wholesale receivable reserves relate to amounts due from the California Power Exchange totaling \$23.8 million and \$24.6 million at December 31, 2009 and 2008, respectively. The ultimate recovery of these amounts is dependent on numerous factors and cannot be determined at this time. This regulatory asset will be reversed concurrent with the reasonable certainty of collections, or by inclusion in rates in future periods.

*TANC Operations Costs.* SMUD's regulatory asset relating to deferred TANC costs comprises the difference between its cash payments made to TANC and its share of TANC's accrual-based costs of

operations. This regulatory asset is being collected in rates over the life of TANC's assets during the period that cash payments to TANC exceed TANC's accrual-based costs.

*U.S. Bureau of Reclamation.* In December 2004, SMUD established a regulatory asset to defer recognizing the expense related to the settlement with the U.S. Bureau of Reclamation (Bureau) on a billing dispute. SMUD will make increased payments in future rates to settle the dispute. This regulatory asset will be collected in rates for future water service over the twenty-five year period SMUD is committed to making the increased rate payments to the Bureau.

*Derivative Financial Instruments.* SMUD's regulatory costs and/or credits relating to derivative financial instruments are intended to defer the net difference between the fair value of derivative instruments and their cost basis, if any. Derivative financial instruments are reflected in rates at contract cost and as such, the balance is charged or credited into rates as the related asset or liability is utilized.

*Pollution Remediation.* With the adoption of the 2010 Budget Resolution, SMUD established a regulatory asset to defer recognition of the expense related to the investigation, design and remediation necessary for the North City Substation site. SMUD has recorded a liability for the full \$12.0 million estimated for the project under GASB No. 49. This regulatory asset will be collected in rates in 2012 and 2013.

SMUD's total regulatory costs for future recovery are presented below:

	December 31,	
	2009	2008
	(thousands of dollars)	
Regulatory Costs for Future Recovery:		
Decommissioning .....	\$ 132,567	\$ 143,622
Wholesale power receivables .....	23,848	24,582
TANC operations costs .....	13,041	10,572
U.S. Bureau of Reclamation .....	6,400	5,508
Derivative financial instruments.....	176,462	181,687
Pollution remediation .....	12,000	-0-
Total regulatory costs.....	364,318	365,971
Less: regulatory costs to be recovered within one year .....	(98,980)	(98,363)
Total regulatory costs for future recovery - net .....	\$ 265,338	\$ 267,608

#### Regulatory Liabilities (Credits)

*CIAC.* In 2009 and 2008 SMUD capitalized CIAC totaling \$18.8 million and \$19.0 million, respectively, in Plant in Service in the Consolidated Balance Sheets and recorded \$8.7 million and \$8.1 million, respectively, of Depreciation Expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. SMUD's regulatory credit relating to CIAC is intended to offset the revenue and expense associated with this accounting treatment. Thus, this regulatory credit is being amortized

into rates over the depreciable lives of the related contributed distribution plant assets in order to offset the earnings effect of these nonexchange transactions.

*Rate Stabilization.* SMUD's regulatory credit relating to Rate Stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund transfers on an event driven basis.

*Hydro Rate Stabilization.* In May 2008, the Board approved a Hydro Generation Adjustment (HGA) mechanism effective July 1, 2008. The HGA will automatically adjust rates in April each year based on the precipitation results from the previous April 1 through March 31. The increase or decrease in rates will be limited to a maximum rate change of four percent. The HGA also established a Hydro Rate Stabilization Fund (HRSF) with the transfer of \$30.0 million from the Rate Stabilization Fund. In 2009, \$10.9 million from the HRSF was recognized as revenue to cover the budget impact of low precipitation.

*Public Good.* SMUD's regulatory credit relating to Public Good comprises the amounts collected in rates for specifically identified Public Good programs that have not been fully expended. These regulatory deferrals are credited to revenue in the period when the expenditures on identified projects occur.

*Litigation Settlement.* During 2008, SMUD received several payments related to a natural gas antitrust litigation settlement. Of the total received, \$16.5 million was deferred and recognized as revenue in 2009 per Board Resolution.

*Precipitation Hedges.* Settlements of Precipitation Agreements are included in rates in the year settled and accordingly, the intrinsic value of open precipitation hedges is deferred as regulatory assets or liabilities.

*Senate Bill 1.* During 2007, SMUD implemented a per kilowatt hour solar surcharge, effective January 1, 2008. The surcharge was implemented in order to fund investments in solar required by Senate Bill 1 (SB-1). The difference between the surcharge revenues received and the funds spent on solar initiatives will be deferred into future years. In 2008, SMUD spent less than it collected in SB-1 revenues, and has recorded a regulatory credit.



SMUD's total regulatory credits for future revenue recognition are presented below:

	December 31,	
	2009	2008
	(thousands of dollars)	
Regulatory Credits for Future Revenue Recognition:		
CIAC .....	\$ 229,694	\$ 219,570
Rate stabilization .....	43,605	59,775
Hydro rate stabilization .....	4,083	15,000
Public good .....	290	928
Litigation settlement .....	-0-	16,468
Precipitation Hedge .....	359	-0-
SB-1 .....	7,000	7,722
Total regulatory credits for future revenue recognition .....	285,031	319,463
Less: regulatory credits to be recognized within one year .....	(13,549)	(31,018)
Total regulatory credits – net .....	<u>\$ 271,482</u>	<u>\$ 288,445</u>

## NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

To help provide stable electric rates and to meet the forecasted power needs of its retail customers reliably, SMUD enters into various physical and financial fixed price purchase contracts for electricity and natural gas. These fixed price contracts and swap agreements are intended to hedge the exposure due to highly volatile and fluctuating commodity prices. SMUD also enters into interest rate swap agreements to reduce interest rate risk, or to enhance the relationship between the risk and return regarding SMUD's assets or debt obligations.

During 2009 and 2008, SMUD executed numerous new gas related and power related purchase agreements, some of which are recorded as derivative financial instruments and are therefore included in the table below. All derivative financial instruments are recorded at fair value on our Consolidated Balance Sheets.

SMUD utilizes these derivative financial instruments to mitigate its exposure to certain market risks associated with our ongoing operations. It should be noted that SMUD does not use derivative financial instruments for trading or speculative purposes.

These hedged risks include those related to interest rate and commodity price fluctuations associated with certain forecasted transactions, including interest rate risk on our long term debt, and forward purchases of gas and electricity to meet our load. Changes in the fair value of all of SMUD's derivative financial instruments that would be recorded on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets are deferred for rate-making purposes as regulatory assets or liabilities on the Consolidated Balance Sheets (Note 8).

SMUD is exposed to counterparty credit risk on all of our derivative financial instruments. SMUD has established and maintained strict counterparty credit guidelines and enters into contracts only with institutions that are investment grade or better. SMUD continuously monitors counterparty credit risk, and utilizes numerous counterparties to minimize exposure to potential defaults. Under certain

conditions as outlined in our credit risk management policy, SMUD may require collateral under these agreements.

Some of SMUD's derivative master agreements contain credit contingent provisions that enable SMUD to maintain unsecured credit as a result of positive investment quality credit ratings from each of the major credit rating agencies. If SMUD's debt were to fall below investment grade, it would trigger some of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2009, is \$166.1 million, for which SMUD has posted collateral of \$49.5 million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2009, SMUD would be required to post an additional \$116.1 million of collateral to its counterparties.

The fair value of SMUD's derivative financial instruments not designated as hedging instruments under FASB ASC 815 are as follows:

	December 31,	
	2009	2008
	(thousands of dollars)	
Assets:		
Derivative Financial Instruments not designated as hedging instruments:		
Balance Sheet Location: Current Assets, Derivative Financial Instruments		
Gas Contracts .....	\$ 16,961	\$ 6,794
Electric contracts .....	-0-	1,037
Interest rate contracts .....	<u>1,895</u>	<u>2,391</u>
Total Current Assets, Derivative Financial Instruments .....	18,856	10,222
Balance Sheet Location: NonCurrent Assets and Deferred		
Charges, Derivative Financial Instruments		
Gas Contracts .....	13,177	17,955
Electric contracts .....	-0-	-0-
Interest rate contracts .....	<u>25,584</u>	<u>34,665</u>
Total NonCurrent Assets and Deferred		
Charges, Derivative Financial Instruments.....	38,761	52,620
Total derivative financial instrument assets		
not designated as hedging instruments.....	\$ <u>57,617</u>	\$ <u>62,842</u>

	December 31,	
	2009	2008
	(thousands of dollars)	
Liabilities:		
Derivative Financial Instruments not designated as hedging instruments:		
Balance Sheet Location: Current Liabilities, Derivative Financial		
Instruments maturing within one year		
Gas Contracts .....	\$ 90,121	\$ 68,395
Electric contracts .....	-0-	9,475
Interest rate contracts .....	<u>3,350</u>	<u>5,064</u>
Total Current Liabilities, Derivative Financial		
Instruments maturing within one year .....	93,471	82,934
Balance Sheet Location: NonCurrent Liabilities and Deferred Credits,		
Derivative Financial Instruments		
Gas Contracts .....	110,568	108,933
Electric contracts .....	717	-0-
Interest rate contracts .....	<u>26,663</u>	<u>49,821</u>
Total NonCurrent Liabilities and Deferred Credits,		
Derivative Financial Instruments .....	137,948	158,754
Total derivative financial instrument liabilities		
not designated as hedging instruments .....	<u>\$ 231,419</u>	<u>\$ 241,688</u>

*Derivatives not designated as hedging instruments.*

*Gas Contracts.* SMUD utilizes certain gas swap agreements under FASB ASC 815 not designated as hedging instruments to mitigate exposure to changes in the market price of natural gas. The fair value

of each agreement, excluding the actual settlements to be paid or received as of the end of the period, is recorded in either Current or NonCurrent Assets, Derivative Financial Instruments on the Consolidated Balance Sheets if in an asset position or Current or NonCurrent Liabilities, Derivative Financial Instruments on the Consolidated Balance Sheets if in a liability position, and an offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Consolidated Balance Sheets. The actual settlement payable is recorded in Accounts Payable on the Consolidated Balance Sheets, and the actual settlement receivable is recorded in Energy Efficiency loans due within one year, accrued interest and other on the Consolidated Balance Sheets.

*Electric Contracts.* SMUD utilizes certain electric swap agreements under FASB ASC 815 not designated as hedging instruments to mitigate exposure to changes in the market price of natural gas. The fair value of each agreement, excluding the actual settlements to be paid or received as of the end of the period, is recorded in either Current or NonCurrent Assets, Derivative Financial Instruments on the Consolidated Balance Sheets if in an asset position or Current or NonCurrent Liabilities, Derivative Financial Instruments on the Consolidated Balance Sheets if in a liability position, and an offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Consolidated Balance Sheets. The actual settlement payable is recorded in Accounts Payable on the Consolidated Balance Sheets, and the actual settlement receivable is recorded in Energy Efficiency Loans due within one year, Accrued Interest and Other on the Consolidated Balance Sheets.

*Interest Rate Contracts.* SMUD utilizes certain interest rate swap agreements not designated as hedging instruments under FASB ASC 815 to mitigate exposure to changes in the fair value of variable rate debt resulting from fluctuations in interest rates. The fair value of each agreement, excluding the balance of interest to be paid or received as of the end of the period, is recorded in either Current or NonCurrent Assets, Derivative Financial Instruments on the Consolidated Balance Sheets if in an asset position or Current or NonCurrent Liabilities, Derivative Financial Instruments on the Consolidated Balance Sheets if in a liability position, and an offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Consolidated Balance Sheets. The interest receivable is recorded in Energy Efficiency Loans due within one year, Accrued Interest and Other on the Consolidated Balance Sheets, and the interest payable is recorded Accrued interest on the Consolidated Balance Sheets.

The Board has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments (see Note 8). Market values may have changed significantly since December 31, 2009.

## NOTE 10. LONG-TERM DEBT

SMUD's total long-term debt is presented below:

	December 31,	
	2009	2008
	(thousands of dollars)	
Electric Revenue Bonds:		
Electric revenue bonds, 2.5%-6.5%, 2010-2033 .....	\$ 1,948,645	\$ 1,814,480
Subordinated electric revenue bonds, 0.2%-8.0%, 2010-2028 .....	<u>207,850</u>	<u>222,425</u>
Total electric revenue bonds.....	2,156,495	2,036,905
Component unit project revenue bonds,		
2.25%-5.50%, 2010-2030 .....	488,665	519,205
Gas supply prepayment bonds		
3.385%-5.0%, 2010-2027 .....	<u>454,465</u>	<u>738,390</u>
Total long-term debt outstanding.....	3,099,625	3,294,500
Bond premiums - net.....	89,610	93,303
Deferred losses on bond refundings - net .....	<u>(71,893)</u>	<u>(78,857)</u>
Total long-term debt .....	3,117,342	3,308,946
Less: amounts due within one year .....	<u>(106,775)</u>	<u>(103,845)</u>
Total long-term debt - net .....	<u>\$ 3,010,567</u>	<u>\$ 3,205,101</u>

The summarized activity of SMUD's long-term debt during 2009 is presented below (thousands of dollars):

	December 31, 2008	Additions	Payments or Amortization	December 31, 2009	Amounts Due Within One Year
Electric revenue bonds.....	\$1,814,480	\$ 200,000	\$ (80,410)	\$1,934,070	\$ 54,955
Subordinate electric revenue bonds.....	222,425	-0-	-0-	222,425	10,000
Component unit project revenue bonds .....	519,205	106,450	(136,990)	488,665	18,355
Gas supply prepayment bonds ....	<u>738,390</u>	<u>-0-</u>	<u>(283,925)</u>	<u>454,465</u>	<u>23,465</u>
Total .....	3,294,500	306,450	(501,325)	3,099,625	<u>\$ 106,775</u>
Unamortized premiums – net.....	93,303	7,385	(11,078)	89,610	
Deferred losses on bond refundings - net.....	<u>(78,857)</u>	<u>(7,575)</u>	<u>14,539</u>	<u>(71,893)</u>	
Total long-term debt .....	<u>\$3,308,946</u>	<u>\$306,260</u>	<u>\$ (497,864)</u>	<u>\$3,117,342</u>	

The summarized activity of the SMUD's long-term debt during 2008 is presented below (thousands of dollars):

Amounts	December 31, 2007	Additions	Payments or Amortization	December 31, 2008	Due Within One Year
Electric revenue bonds.....	\$1,544,425	\$521,730	\$ (251,675)	\$1,814,480	\$ 65,835
Subordinate electric revenue bonds.....	443,400	197,850	(418,825)	222,425	-0-
Component unit project revenue bonds.....	541,390	-0-	(22,185)	519,205	13,925
Gas supply prepayment bonds....	<u>757,055</u>	<u>-0-</u>	<u>(18,665)</u>	<u>738,390</u>	<u>24,085</u>
Total .....	3,286,270	719,580	(711,350)	3,294,500	<u>\$ 103,845</u>
Unamortized premiums – net.....	73,074	29,118	(8,889)	93,303	
Deferred losses on bond refundings - net.....	<u>(79,763)</u>	<u>(43,976)</u>	<u>44,882</u>	<u>(78,857)</u>	
Total long-term debt .....	<u>\$3,279,581</u>	<u>\$704,722</u>	<u>\$ (675,357)</u>	<u>\$3,308,946</u>	

At December 31, 2009 scheduled annual principal maturities and interest are as follows (thousands of dollars):

	Principal	Interest	Total
2010.....	\$ 106,775	\$ 142,335	\$ 249,110
2011.....	99,935	137,652	237,587
2012.....	105,925	132,637	238,562
2013.....	123,380	127,726	251,106
2014.....	132,685	122,028	254,713
2015 – 2019 (combined).....	814,515	509,727	1,324,242
2020 – 2024 (combined).....	808,760	325,054	1,133,814
2025 – 2029 (combined).....	619,950	159,246	779,196
2030 – 2034 (combined).....	215,430	58,123	273,553
2035.....	<u>72,270</u>	<u>3,271</u>	<u>75,541</u>
Total Requirements	<u>\$ 3,099,625</u>	<u>\$ 1,717,799</u>	<u>\$ 4,817,424</u>

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates, variable rate debt covered by interest rate swaps at their fixed rate, and variable rate debt not covered by interest rate swaps using the debt interest rate of 0.15 and 0.18 percent in effect at December 31, 2009 for the issue.

*2009 Revenue Bonds Refunding and Extinguishments.* In January 2009, NCGA extinguished \$250.0 million of 2007 NCGA Series B Gas Project Revenue Bonds (NCGA Bonds). This bond extinguishment resulted in a current accounting gain of \$26.9 million, which is included in Gain or Loss on Debt Extinguishment and Refundings in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. Redeeming the bonds reduced the aggregate future debt service payments by \$417.3 million.

In May 2009, SMUD redeemed \$14.6 million of SMUD 1985 Subordinated Series ER Bonds. This bonds redemption resulted in a current accounting gain of \$0.5 million, which is included in Gain or

Loss on Debt Extinguishment and Refundings in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. Redeeming the bonds reduced the aggregate future debt service payments by \$16.3 million. In August 2009, NCGA extinguished \$9.8 million of NCGA Bonds. This bond extinguishment resulted in a current accounting gain of \$1.1 million, which is included in Gain or Loss on Debt Extinguishment and Refundings in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. Redeeming the bonds reduced the aggregate future debt service payments by \$16.2 million.

In August 2009, SCA issued \$57.5 million of 2009 Series SCA Cogeneration Project Revenue Refunding Bonds. Proceeds from the 2009 bonds and \$7.1 million of available funds were used to refund \$67.8 million of the outstanding 1998 SCA 1998 revenue bonds and accordingly, the liability for the extinguished bonds has been removed from Long-Term Debt in the Consolidated Balance Sheets. The refunding resulted in the recognition of a deferred accounting loss of \$4.0 million, which is being amortized over the life of the refunding issue, and a current period loss of \$0.2 million which is included in Gain or Loss on Debt Extinguishment and Refundings in the Consolidated Statement of Revenues, Expenses, and Changes in Net Assets. The 2009 refunding reduced future aggregate debt service payments by \$15.1 million and resulted in a total economic gain of \$4.9 million, which is the difference between the present value of the old and new debt service payments.

In August 2009, CVFA issued \$48.9 million of 2009 Series CVFA Cogeneration Project Revenue Refunding Bonds. Proceeds from the 2009 CVFA bonds and \$5.0 million of available funds were used to refund \$55.2 million of the outstanding CVFA 1998 revenue bonds and accordingly, the liability for the extinguished bonds has been removed from Long-Term Debt in the Consolidated Balance Sheets. The refunding resulted in the recognition of a deferred accounting loss of \$3.6 million, which is being amortized over the life of the refunding issue, and a current period loss of \$0.07 million which is included in Gain or Loss on Debt Extinguishment and Refundings in the Consolidated Statement of Revenues, Expenses, and Changes in Net Assets. The 2009 refunding reduced future aggregate debt service payments by \$10.8 million and resulted in a total economic gain of \$4.0 million, which is the difference between the present value of the old and new debt service payments.

*2009 Bond Issuances* – In May 2009, SMUD issued \$200 million of 2009 Series V Electric Revenue Bonds at a discount of \$1.9 million. These bonds were issued as taxable Build America Bonds under the provisions of the American Recovery and Reinvestment Act of 2009. SMUD expects to receive a cash subsidy payment from the U.S. Treasury equal to 35 percent of the interest payable on the bonds which will be recorded as a component of Interest and Other Income, in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

*2008 Revenue Bonds Refunding and Redemptions.* In March 2008, SMUD redeemed \$12.0 million of SMUD 2001 Subordinated Series B Bonds. This bond redemption resulted in a current accounting loss of \$0.1 million, which is included in Gain or Loss on Debt Extinguishment and Refundings in the

Consolidated Statements of Revenues, Expenses and Changes in Net Assets. Redeeming the bonds will reduce the aggregate future debt service payments by \$12.1 million.

In June 2008, SMUD issued \$521.7 million of 2008 Series U Electric Revenue Refunding Bonds. A portion of the proceeds from the 2008 Series bonds and \$11.4 million of available funds were used to refund \$397.9 million of previously issued 1996, 1997, 2002, and 2003 SMUD bonds and accordingly, the liability for the extinguished bonds has been removed from Long-Term Debt in the Consolidated Balance Sheets. In addition to refunding fixed rate debt, proceeds from the Series U Bonds were also used to refund variable rate Auction Rate Securities (ARS). The ARS had begun to experience failed auctions due to market disruptions. If the failed auctions persisted, SMUD estimates the potential economic gain could be as much as \$20.0 million over the remaining life of the ARS. Because there is no certainty as to whether the failed auctions would continue, or for how long they would continue, SMUD opted to refund this portion of the ARS with fixed rate debt in order to bring more certainty to the budget and rate planning process. The refunding resulted in the recognition of a deferred accounting loss of \$5.5 million, which is being amortized over the life of the refunding issue. The 2008 refunding increased future aggregate debt service payments by \$22.4 million but resulted in a total economic gain of \$23.6 million, the difference between the present value of the old and new debt service payments. The economic gain on the refunding was measured on a present value basis, consequently differences in the timing of debt service payments resulted in positive savings despite the nominal increase in debt service. Proceeds from the bonds were also used to fund \$150.0 million of capital expenditures.

In July 2008, SCA redeemed \$8.8 million of SCA 1998 Revenue Bonds. This bond redemption resulted in a current accounting loss of \$0.2 million, which is included in Gain or Loss on Debt Extinguishment and Refundings in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. Redeeming the bonds will reduce the aggregate future debt service payments by \$9.5 million.

In August 2008, SMUD issued \$120.0 million of 2008 Series J and \$77.9 million of 2008 Series K Subordinated Electric Revenue Refunding Bonds. Proceeds from the 2008 Series bonds and \$2.3 million of available funds were used to refund \$198.8 million of previously issued 1997, 2001, 2002, and 2003 SMUD bonds and accordingly, the liability for the extinguished bonds has been removed from Long-Term Debt in the Consolidated Balance Sheets. The refunding resulted in the recognition of a deferred accounting loss of \$3.5 million, which is being amortized over the life of the refunding issue. SMUD refunded both fixed rate bonds and ARS with the issuance of Series J and K. The 2008 refunding reduced future aggregate debt service payments by \$56.1 million and resulted in a total economic gain, which is the difference between the present value of the old and new debt service payments, of \$4.3 million on the fixed rate bonds, and \$34.8 million on the ARS.



*Interest Rate Swap Agreements.* A summary of SMUD's four swap agreements are as follows:

<u>Initial Notional Amount (thousands)</u>	<u>SMUD Pays</u>	<u>Fixed Rate</u>	<u>Floating Rate</u>	<u>Termination Date</u>	<u>Counterparty Credit Rating (S&amp;P)</u>
\$ 131,030	Variable	5.154%	BMA	07/01/24	A
269,095	Fixed	4.345%	70% of LIBOR	08/15/18	AAA
111,900	Fixed	2.894%	63% of LIBOR	08/15/28	A
39,470	Fixed	4.500%	65% of LIBOR	07/01/10	A

SMUD has a fixed-to-variable interest rate swap agreement with an initial notional amount of \$131.0 million, which is equivalent to the principal amount of SMUD's 1997 Series K Electric Revenue Bonds. Under this swap agreement, SMUD pays a variable rate equivalent to the Bond Market Association (BMA) Index (0.25 percent at December 31, 2009) and receives fixed rate payments of 5.154 percent. In connection with the swap agreement, SMUD has a put option agreement, also with an initial notional amount of \$131.0 million, which gives the counterparty the right to sell to SMUD, at par, either the 1997 Series K Bonds, or a portfolio of securities sufficient to defease the 1997 Series K Bonds. The exercise of the option terminates the swap at no cost to SMUD. The term of both the swap and the put is equal to the maturity of the 1997 Series K Bonds.

Additionally, SMUD has three variable-to-fixed interest rate swap agreements with a combined initial notional amount of \$420.5 million originally entered into for the purpose of fixing the effective interest rate associated with certain of its subordinated bonds that were refunded during 2008. The notional values of all three swaps are amortized over the life of the respective swap agreements. SMUD can terminate all swap agreements at any time, with payment or receipt of the fair market value of the swaps as of the date of termination. The obligations of SMUD under the swap agreements are not secured by a pledge of revenues of SMUD's electric system or any other property of SMUD.

*Component Unit Interest Rate Swap Agreements.* NCGA has four swap agreements, which are summarized as follows:

<u>Initial Notional Amount (thousands)</u>	<u>Agency Pays</u>	<u>Fixed Rate</u>	<u>Floating Rate</u>	<u>Termination Date</u>	<u>Credit Support Provider Credit Rating (S&amp;P)</u>
\$ 43,770	Fixed	3.851%	67% of LIBOR +.45%	07/01/13	A
100,385	Fixed	4.062%	67% of LIBOR +.60%	07/01/17	A
65,865	Fixed	4.144%	67% of LIBOR +.63%	07/01/19	A
458,450	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A

NCGA has four variable-to-fixed interest rate swap agreements with a counterparty for the purpose of fixing the effective interest rate associated with the 2007 Series B Bonds. NCGA pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of

the three month LIBOR (0.25 percent at December 31, 2009) plus an interest rate spread, as specified in each swap agreement. The total notional amount of the four swaps at December 31, 2009 was \$408.6 million and was equivalent to the outstanding principal balance on the NCGA Bonds. The swaps are amortized over the life of their respective swap agreements in a manner corresponding to the principal repayment schedule of the NCGA Bonds. Early termination of the swaps would occur upon termination of the prepaid agreement for any reason. Upon early termination, the swaps would have no value to either party.

*Subordinated Electric Revenue Bonds.* Payment of and interest on the Subordinated Electric Revenue Bonds is subordinate to the payment of the principal and interest on SMUD's Electric Revenue Bonds.

*Variable Rate Bonds.* SMUD's Variable Rate Bonds bear interest at weekly rates, ranging from 0.15 percent to 0.18 percent at December 31, 2009. SMUD can elect to change the interest rate period or fix the interest rate, with certain limitations. SMUD's Variable Rate Bonds can be put to SMUD's Trustee by the bondholders; however SMUD has in place a reimbursement agreement with Bank of America to enable SMUD to pay off the bonds over five years if the bonds are put. Accordingly, SMUD has recorded such bonds as Long-Term Debt, less amounts scheduled for redemption within one year.

*Component Unit Bonds.* The component units of SMUD have each issued bonds to finance their respective projects. The bonds of SPA, NCGA and SFA have limited recourse to SMUD. Principal and interest associated with these bonds are paid solely from the component units' revenues and receipts collected in connection with the operation of the projects. Most operating revenues earned by the component units are collected from SMUD in connection with the sale of gas or electricity to SMUD. The ability of SPA, NCGA, and SFA to service their debt is dependent upon the successful operation of the respective projects. The ability of SCA and CVFA to service their debt is no longer dependent upon the successful operation of the project, as SMUD is now required, under a "take-or-pay" contract to make payments sufficient to pay principal and interest and all other payments required to be made under CVFA and SCA's indenture of trust, regardless of the continued successful operation of the Project.

*Callable Bonds.* SMUD has \$207.9 million of Electric System Revenue Bonds that are currently callable, all of which is subordinate debt and is composed of \$10.0 million of fixed rate debt and \$197.9 million of Variable Rate Demand Notes (VRDN's). SMUD has \$1,380.5 million of bonds that become callable from 2011 through 2018, and these bonds can be called until maturity.

*Collateral.* The principal and interest on SMUD's bonds are payable exclusively from, and are collateralized by a pledge of, the net revenues of SMUD's electric system. Neither the credit nor the taxing power of SMUD is pledged to the payment of the bonds and the general fund of SMUD is not liable for the payment thereof.

*Covenants.* SMUD's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios, certain other financial ratios, stipulated minimum funding of

revenue bond reserves, and various other requirements including a rate covenant to raise rates to maintain minimum debt service coverage.

SMUD has pledged future net electric revenues, component unit net project revenues, and net gas supply prepayment revenues to repay \$3,099.6 million and \$3,294.5 million at December 31, 2009 and 2008, respectively, in electric revenue, component unit project revenue and gas supply prepayment revenue bonds issued from 1992 through 2009. Proceeds from the bonds provided financing for various capital improvement projects, component unit capital projects, and the prepayment of a twenty-year supply of natural gas. The bonds are payable solely from the net revenues generated by SMUD's electrical sales, component unit project revenues, and gas supply prepayment revenues and are payable through 2035 at December 31, 2009 through 2033 at December 31, 2008. Annual principal and interest payments on the bonds are expected to require approximately 38 and 35 percent of net revenues for the years ending December 31, 2009 and 2008, respectively. The total principal and interest remaining to be paid on the bonds is \$4,817.4 million and \$5,045.2 million at December 31, 2009 and 2008, respectively. Principal and interest paid was \$275.9 million for 2009, and \$255.6 million for 2008. Total net revenues were \$720.7 million for 2009 and \$732.7 million for 2008.

#### **NOTE 11. COMMERCIAL PAPER NOTES**

SMUD issues Commercial Paper Notes (Notes) to finance or reimburse capital expenditures. At December 31, 2009 and 2008 Notes outstanding totaled \$200.0 million. The effective interest rate for the Notes outstanding at December 31, 2009 was 0.3 percent and the average term was 114 days. SMUD has a \$204.9 million letter of credit agreement, and there have not been any term advances under it.

The summarized activity of SMUD's Notes during 2009 and 2008 is presented below (thousands of dollars):

	Balance at beginning of Year	Additions	Reductions	Balance at end of Year
December 31, 2009 .....	\$ 200,000	\$ -0-	\$ -0-	\$ 200,000
December 31, 2008 .....	\$ 150,000	\$ 50,000	\$ -0-	\$ 200,000

#### **NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

*Investments.* The fair values of investments, including cash equivalents, are based upon quoted market prices.

*Long-Term Debt.* The fair value of Long-Term Debt, which includes the short-term portion, was calculated by determining the value of each individual series using a standard bond pricing formula and market yields from representative yield curves. For debt with a stepped interest rate, the fair market value of debt was calculated by discounting future interest and principal payments using a market yield from a representative yield curve. For 2009 and 2008, due to the current economic conditions, the weakened financial condition of bond insurers, and general market disruptions, the yield curve for insured municipal bonds was not used for SMUD's debt. SMUD's electric revenue bonds, SCA bonds, and CVFA bonds were instead valued at the yield curve for "A" rated municipal power bonds. For the same reasons, the yield curve for "BBB" rated municipal power bonds was used for insured component unit bonds of SPA and SFA instead of the "A" ratings used in past years. The yield curve for "A" rated finance bonds was used for NCGA debt, reflecting the downgrade of Morgan Stanley in 2008. All yield curves were obtained from Bloomberg, L.P.

*Interest Rate Swap and Put Agreements.* The fair values of interest rate swap and put agreements are based on values provided by counterparties.

*Gas and Electricity Related Derivatives.* The fair values of gas and electricity price swap agreements and electricity option agreements are based on forward prices from established indexes for the applicable regions. The fair values of gas and electricity purchase agreements are based on forward prices from established indexes from applicable regions and discounted using established interest rate indexes.

The estimated fair values of SMUD's financial instruments are presented below. Market values may have changed significantly since December 31, 2009.

	December 31, 2009	
	<u>Recorded Value</u>	<u>Fair Value</u>
	(thousands of dollars)	
Investments, including cash and cash equivalents .....	\$ 558,900	\$ 558,900
Long-term debt .....	(3,117,342)	(3,149,721)
Interest rate swap and put agreements - net .....	(2,534)	(2,534)
Gas and electricity related derivatives – net.....	(171,269)	(171,269)
Asset Retirement Obligation .....	(158,817)	(158,817)

	December 31, 2008	
	<u>Recorded Value</u>	<u>Fair Value</u>
	(thousands of dollars)	
Investments, including cash and cash equivalents .....	\$ 598,495	\$ 598,495
Long-term debt .....	(3,308,946)	(3,197,088)
Interest rate swap and put agreements - net .....	(17,829)	(17,829)
Gas and electricity related derivatives – net.....	(161,017)	(161,017)

*Fair Value Measurements.* Effective January 1, 2008, SMUD adopted FASB ASC 820 as discussed in Note 3, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SMUD utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. SMUD primarily applies the market approach for recurring fair value measurements, maximizing the use of observable inputs and minimizing the use of unobservable inputs. FASB ASC 980 allows SMUD to defer the unrealized gains and losses associated with these derivative financial instruments as they are expected to be reflected in rate-making actions of the Board (see Notes 8 and 9).

SMUD values natural gas and electricity derivatives based on monthly quoted prices from an independent external pricing service. When external quoted market prices are not available for derivative contracts, SMUD uses an internally developed valuation model utilizing short-term observable inputs.

SMUD values its ARO for Rancho Seco based on significant unobservable inputs (Level 3). During 2009, the ARO was updated to reflect new information and revise the estimated costs. The information used to develop the inputs was a combination of actual historical costs and published data

with contingencies to account for uncertainties in future costs. There was no change in the methodology used from the prior estimate.

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by FASB ASC 820 are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date. An active market is a market in which the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of natural gas and electricity derivative financial instruments for which prevailing market quotes in active markets (i.e., Henry Hub and So Cal) for identical contracts are available.

Level 2 – Pricing inputs that are other than quoted prices included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. Level 2 fair values for natural gas and electricity derivative financial instruments are calculated based on forward curves that are derived from observable market data based on delivery point by correlation and other means, such as seasonality, and extrapolation beyond available market quotes. Level 2 fair values for interest rate swap agreements are calculated by swap pricing models on the basis of the prevailing swaps' yield curve and discounting cash flows at their corresponding zero coupon rate.

Level 3 – Pricing inputs that are unobservable for the asset or liability for which there is little, if any, market activity as of the reporting date. These inputs may be used with internally developed methodologies that result in SMUD's best estimate of fair value. Level 3 fair values for natural gas derivative financial instruments are calculated based on a model which extrapolates out short-term observable inputs through use of regression analysis and normalization factors to provide a multi-year monthly price forecast. Level 3 fair values for asset retirement obligations are calculated by estimating future costs on the basis of published and historical data and including contingencies for uncertainty in future costs.

The following table sets forth by level within the fair value hierarchy SMUD's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008. As required by FASB ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. SMUD's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value assets and liabilities and their placement within the fair value hierarchy levels.

# Recurring Fair Value Measures

At fair value as of December 31, 2009				
	Level 1	Level 2	Level 3	Total
	(thousands of dollars)			
Derivative Financial Instrument Assets:				
Gas related agreements.....	\$ 8,023	\$ 22,115	\$ -0-	\$ 30,138
Electric related agreements.....	-0-	-0-	-0-	-0-
Interest rate related agreements .....	-0-	27,479	-0-	27,479
Total Derivative Financial Instrument Assets.....	<u>\$ 8,023</u>	<u>\$ 49,594</u>	<u>\$ -0-</u>	<u>\$ 57,617</u>
Derivative Financial Instrument Liabilities:				
Gas related agreements.....	\$ 194,648	\$ 275	\$ 5,767	\$ 200,690
Electric related agreements.....	-0-	717	-0-	717
Interest rate related agreements .....	-0-	30,013	-0-	30,013
Total Derivative Financial Instrument Liabilities.....	194,648	31,005	5,767	231,420
Asset Retirement Obligation Liability:				
Rancho Seco .....	-0-	-0-	158,817	158,817
Total Liabilities .....	<u>\$ 194,648</u>	<u>\$ 31,005</u>	<u>\$ 164,584</u>	<u>\$ 390,237</u>

At fair value as of December 31, 2008				
	Level 1	Level 2	Level 3	Total
	(thousands of dollars)			
Derivative Financial Instrument Assets:				
Gas related agreements.....	\$ 5,507	\$ 1,664	\$ 17,578	\$ 24,749
Electric related agreements.....	-0-	1,037	-0-	1,037
Interest rate related agreements .....	-0-	37,056	-0-	37,056
Total Derivative Financial Instrument Assets.....	<u>\$ 5,507</u>	<u>\$ 39,757</u>	<u>\$ 17,578</u>	<u>\$ 62,842</u>
Derivative Financial Instrument Liabilities:				
Gas related agreements.....	\$ 173,270	\$ 233	\$ 3,825	\$ 177,328
Electric related agreements.....	-0-	9,475	-0-	9,475
Interest rate related agreements .....	-0-	54,885	-0-	54,885
Total Derivative Financial Instrument Liabilities.....	<u>\$ 173,270</u>	<u>\$ 64,593</u>	<u>\$ 3,825</u>	<u>\$ 241,688</u>

The following table provides a reconciliation of changes in the fair value of net natural gas derivatives classified as Level 3 in the fair value hierarchy from the table above as of December 31, 2009 and 2008.

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Derivative Financial Instrument		
Gas Related		
Asset balance at beginning of year - net .....	\$ 13,753	\$ 44,438
Purchases and settlements .....	(4,712)	(2,845)
Realized and unrealized gains (losses):		
Included in regulatory assets and liabilities .....	(14,808)	(27,840)
Transfers in (out) of Level 3 .....	<u>-0-</u>	<u>-0-</u>
Derivative Financial Instrument		
Asset (Liability) balance at end of year - net .....	<u>\$ (5,767)</u>	<u>\$ 13,753</u>

The following table provides a reconciliation of changes in the fair value of the ARO classified as Level 3 in the fair value hierarchy from the table above as of December 31, 2009.

	<u>December 31,</u>
	<u>2009</u>
	(thousands of dollars)
Asset Retirement Obligation	
Liability balance at beginning of year - net .....	\$ 171,392
Accretion and expenditures .....	5,346
Adjustments:	
Included in regulatory assets and liabilities .....	(17,921)
Transfers in (out) of Level 3 .....	<u>-0-</u>
Asset Retirement Obligation	
Liability balance at end of year - net .....	<u>\$ 158,817</u>

Net assets for the period were not impacted by unrealized gains or (losses) relating to assets or liabilities still held at December 31, 2009.

### NOTE 13. RANCHO SECO DECOMMISSIONING LIABILITY

*Background.* The Rancho Seco decommissioning liability relates to the nuclear decommissioning of the former 913 MW nuclear power plant, which terminated commercial operations in 1989. Nuclear decommissioning is the process of safely removing nuclear facilities from service and reducing residual



radioactivity to a level that permits termination of the Nuclear Regulatory Commission (NRC) license, and release of the property for unrestricted use. The NRC has approved SMUD's decommissioning plan, which delineates a phased process, and the first phase of physical work was completed in 2008.

In 2009, the NRC released all of the land under the Part 50 license for unrestricted use with the exception of the 1 acre fenced area around the Interim Onsite Storage Building (IOB) that houses the stored class B and C waste. This waste will be stored for an unspecified period pending availability of appropriate disposal sites. The facility operating license will be terminated after the waste is removed.

The Department of Energy (DOE), under the Nuclear Waste Policy Act of 1982, is responsible for permanent disposal of spent nuclear fuel and high-level radioactive waste. SMUD has a contract with the DOE for the removal and disposal of spent nuclear fuel and high-level (greater than class "C": GTCC) radioactive waste. However, the date when fuel and GTCC waste removal will be complete is uncertain. The DOE has announced that it will formally withdraw the application for licensing of Yucca Mountain as a high-level waste repository, essentially removing Yucca Mountain as an option for disposal of SMUD's used nuclear fuel. The DOE also announced in January 2010 the creation of a Blue Ribbon Commission to study alternatives for developing a repository for the nation's used nuclear fuel: the Commission is tasked with providing a final report on alternatives in two years or January 2012. At this time, there is no credible information available to determine when the DOE would remove the used nuclear fuel from the Rancho Seco facility. SMUD maintains a separately licensed on-site independent spent fuel storage facility (Storage Facility) which stores all of SMUD's spent fuel and GTCC waste in sealed canisters. The Storage Facility will remain under the regulation of NRC until such time as it is decommissioned after the DOE removes the nuclear fuel and GTCC radioactive waste.

*Asset Retirement Obligations.* These financial statements reflect SMUD's current estimate of its obligation for the cost of decommissioning under the requirements of FASB ASC 410, based on studies completed each year. Each year, SMUD evaluates the estimate of costs of decommissioning and there was a decrease in cost in the 2009 study. The ARO estimate assumes all spent nuclear fuel will be removed from the site by 2028.

Rancho Seco's ARO is presented below:

	December 31,	
	2009	2008
	(thousands of dollars)	
Active decommissioning .....	\$ 26,309	\$ 47,121
Spent fuel management .....	132,508	124,271
Total ARO.....	\$ 158,817	\$ 171,392
Less: current portion .....	(6,913)	(6,913)
Total Non-current portion of ARO .....	<u>\$ 151,904</u>	<u>\$ 164,479</u>

The summarized activity of the Rancho Seco ARO during 2009 and 2008 are presented below. The annual adjustments include a savings computed as the difference between the fair value of the obligation as if the decommissioning activities were performed by a third party and the amount actually incurred by SMUD performing the decommissioning activities.

	December 31,	
	2009	2008
	(thousands of dollars)	
ARO at beginning of year .....	\$ 171,392	\$ 191,744
Accretion .....	7,416	8,475
Expenditures .....	(2,070)	(30,677)
Change in Study .....	13,605	-0-
Annual adjustments .....	(31,526)	1,850
Total ARO.....	<u>\$ 158,817</u>	<u>\$ 171,392</u>

SMUD made no contributions to the Trust Fund in 2009 and contributed \$2.6 million in 2008.

#### **NOTE 14. PENSION PLANS**

*Defined Benefit Pension Plan.* SMUD participates in the California Public Employee's Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and SMUD policies. The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age, and final compensation. Copies of PERS' annual financial report may be obtained from their Executive Office at 400 Q Street, Sacramento, California 95814.

*Funding Policy.* Participants are required to contribute approximately 7 percent of their annual covered salary. SMUD makes either the full or partial contributions required of SMUD employees on their behalf and for their account. SMUD is currently required to contribute 7.9 percent of payroll to the plan. The contribution requirements of plan members and SMUD are established and may be amended by PERS.

*Annual Pension Cost.* PERS payments made by SMUD in 2009 were \$28.0 million. The Annual Pension Cost for 2009 was \$27.4 million, and \$0.6 million was paid by employees for purchase of additional service credits. Overall, SMUD paid \$27.1 million, and employees paid \$0.9 million. PERS payments made by SMUD in 2008 were \$28.0 million. The Annual Pension Cost for 2008 was \$27.4 million, and \$0.6 million was paid by employees for purchase of additional service credits. Overall, SMUD paid \$26.8 million, and employees paid \$1.2 million. Contributions are determined by actuarial valuations, which are performed based on the entry age normal actuarial cost method. The

contribution for the first half of 2009 was determined by PERS as part of the annual actuarial valuation as of June 30, 2006; the contribution for the second half of 2009 was determined by PERS as part of the annual actuarial valuation as of June 30, 2007. The actuarial assumptions included: (a) a 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) also included an inflation component of 3.0 percent. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value).

Three-year trend information for PERS is presented below (thousands of dollars):

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>
6/30/09	\$ 27,372	100%
6/30/08	\$ 27,405	100%
6/30/07	\$ 24,225	100%

*Funded Status and Funding Progress.* As of June 30, 2008, the most recent actuarial valuation date, the plan was 98.6 percent funded. The actuarial accrued liability for benefits was \$1,394 million, and the actuarial value of assets was \$1,374 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$19.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$180.4 million, and the ratio of the UAAL to the covered payroll was 10.9 percent. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Other Plans.* SMUD provides its employees with two cash deferred compensation plans: one pursuant to Internal Revenue Code (IRC) Section 401(k) [401(k) Plan] and one pursuant to IRC Section 457 (457 Plan) (collectively, the Plans). The Plans are contributory plans in which SMUD's employees contribute the funds. Each of SMUD's eligible full-time or permanent part-time employees may participate in either or both Plans, and amounts contributed are vested immediately. Such funds are held by a Trustee in trust for the employees upon retirement from SMUD service and, accordingly, are not subject to the general claims of SMUD's creditors. SMUD is responsible for ensuring compliance with IRC requirements concerning the Plans and has the duty of reasonable care in the selection of investment alternatives, but neither SMUD, nor its Board or officers have any liability for market variations in the Plans' asset values. SMUD employees are responsible for determining how their funds are to be invested and pay all ongoing fees related to the Plans. The Plans are currently not subject to discrimination testing, nor the requirements of the Employee Retirement Income Security Act of 1974. SMUD employees participating in the Plans are allowed to contribute a portion of their gross income not to exceed the annual dollar limits prescribed by the IRC.

SMUD makes annual contributions to the 401(k) Plan on behalf of certain employees pursuant to a memorandum of understanding with both of its collective bargaining units. SMUD does not match employee contributions, nor make contributions on behalf of its employees to the 457 Plan. Participating employees and SMUD made contributions into the Plans totaling \$15.5 million and \$1.6 million in 2009, respectively, and \$16.0 million and \$1.5 million in 2008, respectively.

#### **NOTE 15. OTHER POSTEMPLOYMENT BENEFITS**

SMUD provides postemployment healthcare benefits, in accordance with SMUD policy and negotiated agreements with employee representation groups in a single employer defined benefit plan, to all employees who retire from SMUD, and their dependents. SMUD also provides postemployment healthcare benefits to covered employees who are eligible for disability retirement. SMUD contributes the full cost of coverage for retirees hired before January 1, 1991, and a portion of the cost based on credited years of service for retirees hired after January 1, 1991. SMUD also contributes a portion of the costs of coverage for these retirees' dependents. Retirees are required to contribute the portion that is not paid by SMUD. The benefits, benefit levels, retiree contributions and employer contributions are governed by SMUD and can be amended by SMUD through its personnel manual and union contracts. At December 31, 2009, 2,557 postemployment participants, including retirees, spouses of retirees, surviving spouses, and eligible dependents, participated in SMUD's healthcare benefits program.

OPEB arises from an exchange of salaries and benefits for employee services rendered, and refers to postemployment benefits other than pension benefits such as post employment healthcare benefits. SMUD considers the following benefits to be OPEB: Medical, Dental and Long-Term Disability.

In 2007, the Governor of California signed Assembly Bill 554 into law, which allowed California public employers to join the California Employers Retiree Benefit Trust (CERBT) to prefund their OPEB obligations after January 1, 2008. In 2007, the Board approved a participation agreement with PERS for PERS to be the plan administrator for SMUD's OPEB trust. The participation agreement became effective in 2008, after which SMUD contributed \$22.9 million to the PERS CERBT fund.

*Plan Description.* The plan is CERBT Fund, which is an IRC Section 115 Trust set up for the purpose of receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries. The plan is an agent multiple employer plan and will be administered by PERS, and will provide medical, dental and long-term disability benefits for retirees and their beneficiaries. Any changes to these benefits would be approved by SMUD's Board and union contracts. To obtain a CERBT report, please contact PERS at 888-CALPERS.

The funding of a plan occurs when the following events take place: the employer makes payments of benefits directly to or on behalf of a retiree or beneficiary, the employer makes premium payments to an insurer, or the employer irrevocably transfers assets to a trust or other third party acting in the role

of trustee for the sole purpose of the payments of the plan benefits, and creditors of the government do not have access to those assets.

*Funding Policy.* SMUD contracted with PERS to administer its OPEB plan in 2008. SMUD has elected to net fund to PERS, so the contributions are the Annual Required Contribution (ARC) less the estimated cash flow for retiree benefit costs for each year. In 2008, SMUD funded its 2007 and 2008 net ARC plus estimated interest for 2007 to the CERBT trust. In 2009 and 2008, the net ARC contribution to the CERBT trust was \$6.6 and \$22.9 million, respectively. During 2009 and 2008, SMUD made the following healthcare benefit contributions by paying actual medical costs of \$13.6 and \$11.6 million, respectively.

*Funding Status and Funding Progress.* At December 31, 2009 and 2008, SMUD estimates that the actuarially determined accumulated postemployment benefit obligation was approximately \$286.9 million and \$264.0 million, respectively. The plan was 5.8 percent and 8.7 percent funded in 2009 and 2008, respectively. The covered payroll (annual payroll of active employees covered by the plan) is \$197.8 million for 2009. The ratio of the UAAL to covered payroll is 136.7 percent for 2009.

*Annual OPEB Cost.* The annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. For 2009, SMUD's annual OPEB Cost (expense) of \$19.6 million was equal to the ARC.

The following table shows the components of SMUD's annual OPEB cost for the year, the amount actually paid in premiums, and changes in the net OPEB obligation:

	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Annual required contribution .....	\$ 19,582	\$ 19,589
Interest on net OPEB obligation .....	<u>-0-</u>	<u>1,075</u>
Annual OPEB cost (expense) .....	19,582	20,664
Contributions made .....	<u>(20,110)</u>	<u>(34,529)</u>
Increase (decrease) in net OPEB obligation .....	(528)	(13,865)
Net OPEB obligation, beginning of year .....	<u>-0-</u>	<u>13,865</u>
Net OPEB obligation (asset), end of year.....	<u>\$ (528)</u>	<u>\$ -0-</u>

SMUD's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the two preceding years is as follows (thousands of dollars):

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
December 31, 2009	\$19,582	103%	(528)
December 31, 2008	\$19,589	176%	-0-
December 31, 2007	\$23,695	41%	13,865

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal was used in the December 31, 2009 and 2008 actuarial valuation. Actuarial assumptions used a 7.75 percent investment rate of return (net of administrative expenses), and a 3.25 percent inflation assumption. For 2009, the actuarial assumptions for an annual healthcare cost trend growth of 14 percent for the current year, 9.5 percent for 2010, 8.5 percent for 2011, and declining 0.5 percent per year until 5 percent is reached. The 5 percent growth is used on a go forward basis. The UAAL will be amortized as a percentage of payroll over an open 30-year period. The actuarial value of assets was \$16.6 million and \$22.9 million in 2009 and 2008, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### **NOTE 16. INSURANCE PROGRAMS AND CLAIMS**

SMUD is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions, and natural disasters. In addition, SMUD is exposed to risks of loss due to injuries to, and illnesses of, its employees. SMUD carries commercial insurance coverage to cover most claims in excess of specific dollar thresholds, which range from \$5 thousand to \$2.5 million per claim with total excess liability insurance coverage for most claims of \$100.0 million. SMUD property insurance

coverage is based on the replacement value of the asset. There have been no significant reductions in insurance coverage, and in some cases, certain coverages increased in 2009. In 2009, 2008 and 2007, the insurance policies in effect have adequately covered all settlements of the claims against SMUD. No claims have exceeded the limits of property or liability insurance in any of the past three years.

The claims liability is included as a component of Self Insurance, Deferred Credits and Other in the Consolidated Balance Sheets.

SMUD's total claims liability, comprising claims received and claims incurred but not reported, at December 31, 2009, 2008, and 2007 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(thousands of dollars)		
Workers' compensation claims .....	\$ 9,605	\$ 7,066	\$ 6,434
General and auto claims .....	1,221	761	1,410
Short- and long-term disability claims.....	<u>73</u>	<u>79</u>	<u>1,621</u>
Claims liability .....	<u>\$ 10,899</u>	<u>\$ 7,906</u>	<u>\$ 9,465</u>

Changes in SMUD's total claims liability during 2009, 2008 and 2007 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(thousands of dollars)		
Claims liability, beginning of year .....	\$ 7,906	\$ 9,465	\$ 9,113
Add: provision for claims, current year.....	2,512	3,111	2,123
Increase/(Decrease) in provision for claims in prior years .....	3,763	(470)	2,264
Less: payments on claims attributable to current & prior years .....	<u>(3,282)</u>	<u>(4,200)</u>	<u>(4,035)</u>
Claims liability, end of year .....	<u>\$ 10,899</u>	<u>\$ 7,906</u>	<u>\$ 9,465</u>

## NOTE 17. COMMITMENTS

*Electric Power and Gas Supply Purchase Agreements.* SMUD has numerous power purchase agreements with other power producers to purchase capacity, transmission, and associated energy to supply a portion of its load requirements. SMUD has minimum take-or-pay commitments for energy on some contracts. Certain contracts allow SMUD to exchange energy, received primarily in the summer months, when SMUD most needs the energy and to return energy during the winter months, or other subsequent periods. SMUD has numerous long-term natural gas supply, gas transportation and gas storage agreements with Canadian and U.S. companies to supply a portion of the consumption needs of SMUD's natural gas-fired power plants, which expire through 2031.

At December 31, 2009, the approximate minimum obligations for the take or pay contracts over the next five years are as follows:

	<u>Electric</u> (thousands of dollars)	<u>Gas</u> (thousands of dollars)
2010 .....	\$ 85,765	\$ 20,882
2011 .....	80,127	14,988
2012 .....	35,925	10,676
2013 .....	31,269	10,118
2014 .....	31,310	10,118

At December 31, 2009, the approximate minimum obligations for the remaining contracts, assuming the energy or gas is delivered over the next five years, are as follows:

	<u>Electric</u> (thousands of dollars)	<u>Gas</u> (thousands of dollars)
2010 .....	\$ 127,190	\$ 111,009
2011 .....	129,657	133,806
2012 .....	118,867	177,818
2013 .....	114,738	176,201
2014 .....	109,464	173,937

*Contractual Commitments beyond 2014 – Electricity.* Several of SMUD's purchase power contracts extend beyond the five-year summary presented above. These contracts expire between 2015 and 2033 and provide for power under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts ranges between \$26.6 million in 2015 and \$4.1 million in 2033. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the energy is delivered, ranges between \$70.3 million in 2015 and \$0.2 million in 2028. SMUD's largest purchase power source is the Western Area Power Administration (Western) Base Resource contract, whereby SMUD receives 31.25 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 31.25 percent share of their revenue requirement. On January 1, 2015, SMUD's percentage share changes to approximately 25 percent. The Western contract expires on December 31, 2024.

*Contractual Commitments beyond 2014 - Gas.* Several of SMUD's gas transport and gas storage contracts extend beyond the five-year summary presented above. These contracts expire between 2015 and 2031 and provide for transportation and storage under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts ranges between \$10.1 million in 2015 and \$1.2 million in 2031. SMUD estimates its annual minimum commitments under the



remaining contracts, assuming the gas is delivered, ranges between \$152.6 million in 2015 and \$19.2 million in 2031.

*Electric Power Price Swap Agreements.* SMUD has entered into one variable to fixed rate swap with a notional amount totaling 92,400 megawatt hours (MWh) for the purpose of fixing the rate on SMUD's electric power purchases. This electric power price swap agreement results in the SMUD paying fixed rates of \$77.72 per MWh. The swap agreement expires in September 2011.

*Gas Price Swap Agreements.* SMUD has entered into numerous variable to fixed rate swaps with notional amounts totaling 243,436,500 million British Thermal Units (mmbtu) for the purpose of fixing the rate on SMUD's natural gas purchases for its gas-fueled power plants and gas indexed electric contracts. These gas price swap agreements result in SMUD paying fixed rates ranging from \$5.22 to \$12.41 per mmbtu. The swap agreements expire periodically from January 2010 through December 2022.

*Gas Transport Capacity Agreements.* SMUD has numerous long-term natural gas transport capacity agreements with Canadian and U.S. companies to transport natural gas to SMUD's natural gas-fired power plants from the supply basins in Alberta to the California-Oregon border and from supply basins in the southwest and Rocky Mountains to the Southern California border. These gas transport capacity agreements provide for the delivery of gas into SMUD-owned pipeline capacity within California. The gas transport capacity agreements provide SMUD with 64,000 dekatherms (Dth) per day (Dth/d) of natural gas pipeline capacity to the Canadian Basins through 2023 and 66,000 Dth/d to the Southwest or Rocky Mountain Basins through at least 2018.

*Gas Storage Agreements.* SMUD also has an agreement for the storage of up to 2.33 million Dth of natural gas at a regional facility. The gas storage agreement was renewed in 2009 and expires in 2011.

## **NOTE 18. CLAIMS AND CONTINGENCIES**

*Replacement Reserves Dispute.* In August 2003, PG&E issued invoices totaling \$2.2 million for replacement reserve charges purportedly incurred by PG&E for energy scheduled through the Rancho Seco intertie point from July 2000 through June 2002. In September 2003, SMUD provided PG&E notice of dispute of the invoices arguing that the billing was inconsistent with the Restated Interim Agreement, the primary agreement between the parties governing such transactions; and therefore, no Replacement Reserve charges are due. PG&E functioned as the Scheduling Coordinator on SMUD's behalf for transactions with the California Independent System Operator (ISO) at this intertie point until June 2002, when SMUD became its own balancing authority. These Replacement Reserve charges purportedly relate to power purchased by the ISO to cover deviations between actual load and forecasted load.

SMUD believes that, even if the charges were appropriate, PG&E's delay in billing within a reasonable timeframe compromised SMUD's ability to modify its operations or scheduling procedures

to eliminate or mitigate the charges. In October 2003 SMUD and PG&E entered into a tolling agreement, which among other things, tolls any applicable statute of limitations and may be terminated by either party upon thirty days written notice. SMUD estimates its maximum liability for this matter at \$2.2 million; however, SMUD management believes that it is not likely that it will be found liable for any charges in this matter; and therefore, no liability has been recorded.

*Claims for 2000 and 2001 Power Sales.* On December 6, 2005, PG&E, Southern California Edison Company, San Diego Gas & Electric Company and the Electricity Oversight Board (collectively, the California Parties) filed a claim for damages pursuant to California Government Code § 910.4 (Tort Claims Act) and in March 2006 filed complaints against SMUD and other governmental entities (Governmental Entities) for damages and/or restitution and declaratory relief in Federal District Court in the eastern District of California. The California Parties claim arises from SMUD's power sales from May 1, 2000 through June 20, 2001 (Refund Period) in the wholesale electricity markets operated by the ISO and the California Power Exchange (PX) under tariffs filed with the FERC. The California Parties allege that SMUD is contractually obligated under the PX participation agreement to reimburse the California Parties for any amounts that the FERC might find were unjust under the California refund proceedings.

In March 2007, the federal court dismissed the complaints for lack of subject matter jurisdiction. The California Parties appealed the judge's decision in the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit). In April 2007, the California Parties filed a breach of contract claim in Los Angeles Superior Court (LA Superior Court) against the Governmental Entities, who filed demurrers in August 2007, which were denied in December 2007. The Governmental Entities filed a petition for writ of mandate in January 2008 with respect to the statute of limitations defense. In January 2008, the Governmental Entities filed an answer to the California Parties' complaint. In October 2008, the State Court of Appeals summarily dismissed the petition for writ of mandate.

Several status conferences were held throughout 2009. During the status conferences, the LA Superior Court bifurcated issues of liability and damages and set a liability trial for May 2010. In addition, the LA Superior Court set a schedule for an early trial readiness conference in April 2010. On February 1, 2010, The Governmental Entities filed a motion for summary judgment.

In this state court action, the California Parties are seeking damages from the Governmental Entities in the amount that the Governmental Entities would have been required to refund to the California market had the Governmental Entities been subject to refund authority at the FERC. In a related matter, the Ninth Circuit determined that FERC lacked jurisdiction to order non-jurisdictional entities, including SMUD, to pay refunds for wholesale power sales. The complaints allege that the Governmental Entities are contractually obligated to reimburse the California Parties for the difference between the rates paid to the Governmental Entities for sales into the ISO/PX markets during the Refund Period and the mitigated rates as determined by FERC.

Although the California Parties' claim and complaint does not specify the amount of damages that the California Parties seek, SMUD expects that this amount would parallel the refund that SMUD would owe to the market if it were subject to refund liability. Accordingly, SMUD estimates that its potential refund liability ranges between no liability and approximately \$13.5 million. Ultimately, SMUD believes the claim to be both untimely and without merit, and does not believe that the California Parties will be successful in pursuing the claim.

In a closely related matter, in January 2006, the Attorney General of the State of California and the California Department of Water Resources (collectively, the State Entities) filed a claim for damages pursuant to the Tort Claims Act. The State Entities' claim arises out of SMUD's power sales into the ISO/ PX markets during the Refund Period, as well as SMUD's bilateral power sales to the Department of Water Resources (DWR) through the California Energy Resource Scheduler (CERS). SMUD returned the claim as untimely in mid-January 2006.

In June 2006, the State Entities filed a complaint for damages in the Sacramento Superior Court of California. Similar to the California Parties' claim, discussed above, the State Entities allege that SMUD is contractually obligated under the PX Participation Agreement to reimburse the State Entities for any amounts that the FERC might find were unjust under the California Refund Proceedings. With respect to SMUD's bilateral sales to CERS, the State Entities claim that SMUD is contractually obligated to reimburse the State Entities for the difference between the rates received for any sales made under the Western Systems Power Pool (WSPP) Agreement and a lawful rate as determined by the FERC.

SMUD believes that the claim is untimely filed under the one-year statute of limitations under the Tort Claims Act, if applicable, and the four-year statute of limitations for contract claims. With respect to SMUD's bilateral sales to the DWR, the FERC has already refused to mitigate bilateral power sales to CERS, which has been upheld by the Ninth Circuit. In addition, the Ninth Circuit's recent decision that the FERC lacks refund authority over wholesale power sales made by governmental entities, like SMUD, imposes further obstacles that the State Entities must overcome to prevail in litigation.

In January 2007, the State Entities filed its amended complaint and served it on SMUD. The amended complaint, similar to the original complaint, attempts to recover damages for breach of contract, unjust enrichment, and money received. It further states that it arises out of SMUD's voluntary power sales to DWR and the ISO, for which DWR paid, during the Refund Period. The complaint further provides that the sales transactions occurred in wholesale markets governed by the ISO and PX and the tariffs those entities filed with the FERC. Significantly, the amended complaint does not state that it seeks recovery for SMUD's bilateral sales to CERS that were made pursuant to the WSPP Agreement. The amended complaint suggests, however, that DWR intends to recover those monies by now characterizing those sales as having been made pursuant to the ISO Tariff.

In February 2007, SMUD entered into a tolling agreement with the State Entities, under which the State Entities agreed to dismiss without prejudice its claim against SMUD on or before March 1, 2007. The tolling agreement serves to put a temporary hold on all future action in the State Entities'

prosecution of its lawsuits, and in any lawsuit SMUD may bring against the State Entities, until the parties have a better understanding of the progress of other related proceedings.

Similar to the California Parties' complaint, the State Entities seek the difference between the market price paid to SMUD and the FERC-mitigated price. Accordingly, SMUD estimates that its liability for these market sales ranges between no liability and \$13.5 million. Further, while the State Entities do not specify the amount of damages that they seek for the sales, SMUD estimates that this amount is approximately \$72.0 million based on the FERC-mitigated price as of July 2004. Ultimately, SMUD does not believe that either party will be successful in pursuing the claims. Consequently, SMUD management believes that the outcome of these matters will not have a material adverse impact on SMUD's financial position or results of operations.

*Fru-Con Construction Corporation Construction Matters.* In August 2003, SMUD entered into a contract with Fru-Con Construction Corporation (Fru-Con) to construct SMUD's 500 MW Cosumnes Power Plant (CPP Project). St. Paul Travelers Casualty Company (Travelers) is obligated, under a Performance Bond, to guarantee Fru-Con's performance under the contract. The original construction schedule for the CPP Project called for commercial operation in September 2005. The CPP Project became operational on February 24, 2006.

Though Fru-Con had previously made claims for comparably smaller amounts that had been resolved through negotiation, in October 2004, Fru-Con asserted additional claims totaling \$26.0 million. Beginning in October 2004 and continuing until early February 2005, SMUD and Fru-Con participated in negotiations to resolve disputes over both cost and delays in the CPP Project schedule. SMUD also notified Travelers in January 2005 about Fru-Con's defaults. The parties were unable to resolve the disputes to the satisfaction of SMUD and in February 2005, SMUD terminated its contract with Fru-Con on the basis of breach of contract by Fru-Con, and took steps to complete the CPP Project. In February 2005, SMUD filed suit in the Sacramento County Superior Court against Fru-Con and one of its sub-contractors alleging breach of contract and violation of the California False Claims Act (State Court Action).

In March 2005, Fru-Con filed a complaint against SMUD in federal court, alleging breach of contract (Federal Court Action) and attempted to remove the State Court Action to federal court. In May 2005, the federal court granted SMUD's motion to remand, and transferred the State Court Action back to the Sacramento County Superior Court.

SMUD also pursued a claim against Travelers under the performance bond. In September 2005, Travelers denied SMUD's claim and filed a declaratory relief action in the same federal court as the Fru-Con Federal Court Action. SMUD filed a counterclaim in response to Travelers' lawsuit. In general, SMUD is seeking to recover from Travelers all of the damages it claims against Fru-Con, including attorneys' fees. Fru-Con's federal case has been consolidated with the Travelers lawsuit for purposes of discovery.

In June 2007, the Sacramento County Superior Court (Superior Court) issued a summary adjudication order upholding SMUD's right to terminate the contract, leaving for trial only the issue of the amount of damages owing by Fru-Con to SMUD. Fru-Con appealed the Superior Court order to the Court of Appeals. In September 2007, the California Supreme Court denied Fru-Con's Petition for Review seeking to overturn the Court of Appeals decision, which had denied their petition to reverse the Superior Court order.

The Superior Court trial commenced in January 2009. SMUD presented evidence at trial to support an award of \$47.1 million net in damages, excluding interest and attorneys' fees, comprised of SMUD's cost to complete Fru-Con's scope of work (\$38.8 million), contract liquidated damages (\$8.2 million) and statutory damages for false claims (\$153.0 thousand). This net total included offsets for Fru-Con's legitimate change order requests for out-of-scope work that Fru-Con actually performed prior to termination and the \$7.8 million in retained funds held by SMUD. In contrast, Fru-Con presented evidence at trial that SMUD should not be awarded any damages, and instead that Fru-Con should be awarded roughly \$45 million, inclusive of claims for extra work for change orders, delays and inefficiencies allegedly caused by SMUD, and attorneys' fees.

In April 2009, after nearly three months in trial, the case was submitted to the jury. In June 2009, the jury rendered a verdict awarding SMUD \$42.2 million in damages, excluding interest and attorneys' fees (\$35.6 million cost to complete, \$6.6 million in liquidated damages, and \$10.0 thousand for False Claims), and awarding Fru-Con \$1.5 million for change orders.

In December 2009, following a hearing on motions for pre-judgment interest and attorneys fees, the Final Judgment on Verdict was issued. In addition to the \$42.2 million in damages to SMUD, SMUD was awarded \$13 million in prejudgment interest through the date of Judgment, and reduced Fru-Con's net award to \$1.2 million, which offsets against SMUD's award, resulting in a net total of approximately \$54 million, plus costs to be submitted. SMUD's request for attorneys' fees was denied.

In December 2009, Fru-Con filed motions for a mistrial and a judgment in Fru-Con's favor notwithstanding the verdict. On February 4, 2010, the judge issued his final ruling denying both motions. On February 8, 2010, Fru-Con filed a Notice of Appeal of the final judgment, including prejudgment orders and the order denying both post-judgment motions with the State Court of Appeals for the Third Appellate District.

Meanwhile, in September 2009, the Federal District Court handed SMUD a further procedural victory by issuing a Stay Order. This Stay Order puts a hold on the federal trial pending the final resolution of the state court proceedings. Effectively, the state judgment would then be binding on the federal court. In September 2009, Fru-Con filed an appeal of the Stay Order to the Ninth Circuit, followed by a similar appeal by Travelers. Fru-Con and Travelers also filed motions to expedite appeal and to consolidate. In October 2009, the Ninth Circuit ordered the appeals consolidated, but denied Fru-Con's and Travelers' motions to expedite the appeal, retaining the regular briefing schedule. Fru-Con and

Travelers filed opening briefs the first week of January 2010 and SMUD's opposing briefs were filed the first week of February 2010.

SMUD management continues to believe that over the course of the state and federal appellate review proceedings and any follow-up trial court proceedings, SMUD is reasonably likely to be successful in refuting, at a minimum, a majority of Fru-Con's claims and to prevail in a majority of its claims against Fru-Con, as well as the surety Travelers. SMUD management also believes that the outcome of this matter will not have a material adverse impact on SMUD's financial position or results of operations.

*Other Construction Matters.* SMUD contracts with various other firms to design and construct facilities for SMUD. Currently, SMUD is party to various claims, legal actions and complaints on some of these construction projects. SMUD management believes that it will be successful in refuting these allegations, and estimates that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position or results of operations.

*Environmental Matters.* SMUD is one of many potentially responsible parties that have been named in a number of actions relating to environmental claims and/or complaints. Due to the nature of these claims, legal actions or complaints, SMUD is unable to predict the range of costs for resolution of these actions and intends to take all actions necessary to defend its position. Some of these matters name SMUD along with other electric utilities as potentially responsible parties. SMUD has estimated its exposure to such costs based on its proportionate share of the potential claim and recorded its share as a liability; in most instances this is a relatively small percentage. However, should other named responsible parties become insolvent and unable to pay their share of the claims, SMUD's share of these contingent liabilities would increase and could be material. SMUD management does not believe this will occur, and accordingly, management believes that the outcome of these environmental claims will not have a material adverse impact on SMUD's financial position or results of operations.

*Other Matters.* In the normal operation of business, SMUD is party to various claims, legal actions and complaints. Management and SMUD's legal counsel believe that there are no other material loss contingencies that would have a material adverse impact on SMUD's financial position or results of operations.

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

### Schedules of Funding Progress

*PERS Pension.* The schedule of funding progress for PERS is presented below for the three most recent years for which SMUD has available data (thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Excess of Assets over AAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c)
6/30/08	\$ 1,373,974	\$1,393,705	\$ 19,731	98.6%	\$180,362	10.9%
6/30/07	\$ 1,300,814	\$1,315,424	\$ 14,611	98.9%	\$171,285	8.5%
6/30/06	\$ 1,213,295	\$1,226,029	\$ 12,734	99.0%	\$163,744	7.8%

*OPEB.* The schedule of funding progress for the other post-employment benefit healthcare plan is presented below for the three recent years for which SMUD has available data (thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	\$ 16,570	\$ 286,874	\$ 270,304	5.8%	\$197,772	137%
1/1/2008	\$ 22,923	\$ 263,982	\$ 241,059	8.7%	\$199,369	121%
1/1/2007	\$ -0-	\$ 248,691	\$ 248,691	0%	\$186,000	134%





## **Appendix B. - Unaudited Financial Statistics**



# Energy Sales

September 2010

Managed Monthly Energy Sales by Rate Class

In Megawatt Hours

YEAR	MONTH	Res_Non-Electric	Res-Electric	GSN	GSS	GSTOU3	GSTOU2	GSTOU1	AGR	Street Light	Night Light	Total
2011	1	311,071	156,221	51,968	140,707	68,132	61,568	150,970	1,451	6,551	341	948,980
2011	2	269,405	128,737	44,748	140,624	68,142	61,997	139,098	2,144	6,558	341	861,795
2011	3	241,992	106,328	43,588	132,788	68,199	59,453	138,905	2,227	6,566	340	800,386
2011	4	223,812	85,097	40,791	130,602	64,654	59,533	138,137	3,237	6,573	340	752,776
2011	5	228,800	77,961	41,092	137,414	66,613	60,699	139,029	4,379	6,581	340	762,908
2011	6	283,003	89,217	47,345	159,825	74,422	66,563	142,499	8,054	6,589	339	877,856
2011	7	354,711	103,111	52,521	174,951	79,243	70,067	147,691	10,209	6,596	339	999,438
2011	8	374,225	109,513	54,654	181,129	81,240	71,324	148,731	10,549	6,604	338	1,038,306
2011	9	344,967	99,949	51,814	173,255	78,740	69,866	145,798	8,843	6,611	338	980,182
2011	10	275,733	86,933	46,869	159,378	74,489	65,428	141,793	5,826	6,619	338	863,406
2011	11	232,015	82,269	43,103	143,396	69,656	62,115	136,267	3,547	6,627	337	779,333
2011	12	277,898	121,658	46,679	140,723	68,975	61,704	135,332	1,992	6,633	337	861,931
2012	1	305,643	153,823	51,244	142,566	69,903	61,931	145,444	1,451	6,640	336	938,983
2012	2	264,863	126,604	44,666	142,559	69,839	62,356	134,784	2,144	6,647	336	854,798
2012	3	245,458	107,724	44,626	137,528	69,793	59,729	135,403	2,227	6,654	335	809,478
2012	4	219,508	83,120	41,088	132,228	66,058	59,745	135,396	3,237	6,661	334	747,375
2012	5	223,540	75,658	41,820	139,091	67,910	60,857	137,897	4,379	6,668	334	758,155
2012	6	279,379	87,068	47,437	161,991	75,830	66,855	143,367	8,054	6,675	333	876,990
2012	7	351,851	100,691	52,633	177,090	80,534	70,281	149,336	10,209	6,682	333	999,639
2012	8	371,983	107,022	54,867	183,387	82,480	71,553	151,405	10,549	6,689	332	1,040,267
2012	9	343,698	97,637	51,312	175,660	79,865	70,180	149,630	8,843	6,696	331	983,853
2012	10	273,844	84,670	46,578	161,650	75,546	65,746	143,705	5,826	6,703	331	864,599
2012	11	229,846	80,075	43,718	145,562	70,700	62,493	138,335	3,547	6,710	330	781,316
2012	12	276,879	119,320	47,298	142,880	69,970	62,098	137,072	1,992	6,718	330	864,557

**PRO FORMA INCOME STATEMENT**  
\$ Millions

	<b>2010 BUDGET</b>	<b>2011 PROJECTION</b>
<b><u>OPERATING REVENUES:</u></b>		
Net Billed Sales (Inc. EARP/MED Discounts)	1,214.4	1,239.1
Other Adjustments	(6.2)	(6.2)
= Net Sales	1,208.2	1,232.9
Other Revenue	26.7	22.8
Total Operating Revenues	1,234.9	1,255.7
<b><u>OPERATING EXPENSES:</u></b>		
Purchased Power (Net of Sales)	210.7	199.2
Fuel	337.4	358.8
Transmission Contracts	24.2	27.0
Production	93.9	96.5
Transmission & distribution	73.3	76.0
Customer accounts	51.7	47.1
Customer services	28.1	35.2
Public Good Expenses	58.5	57.5
Admin & General Expenses	62.8	59.7
Total Operation & Maintenance	940.6	956.9
Provision for depreciation-SMUD & JPAs	158.0	162.7
Total Other Non-Cash	15.4	15.6
Total Operating Expenses	1,114.0	1,135.2
Net Operating Income	120.9	120.5
Total Other Income (Deduction)	8.9	12.4
Income before interest	129.8	132.8
<b><u>INTEREST EXPENSE:</u></b>		
Interest on Long-Term Debt	104.3	115.2
Interest on commercial paper	1.1	2.8
JPA Interest Expense	22.7	22.0
AFUDC - borrowed funds	(6.2)	(7.5)
Net Interest Charges	121.9	132.5
<b>NET INCOME</b>	<b>7.9</b>	<b>0.3</b>
Cash Available for Fixed Debt Service	312.3	326.8
Interest Payments for SMUD, JPAs, TANC	136.9	152.7
Principal Payments for SMUD, JPAs, TANC	83.3	81.3
Total Fixed Debt Service	220.2	234.0
Fixed Charge Coverage Ratio	1.42	1.40

**PRO FORMA CASH FLOW STATEMENT**  
\$ Millions

	2009	2010 BUDGET	2011 PROJECTION	2012 PROJECTION
<b>SOURCES OF CASH</b>				
Net Income	5.4	7.8	0.3	31.5
Add Back:				
Depreciation Expense	142.1	158.0	162.7	176.3
Other Non-Cash	14.2	15.4	15.6	20.1
Less:				
AFUDC	(4.2)	(6.2)	(7.5)	(8.0)
Contribution to JPA Overhaul Funds	0.0	0.0	0.0	0.0
<b>CASH FLOW FROM OPERATIONS</b>	<b>157.5</b>	<b>175.0</b>	<b>171.2</b>	<b>219.9</b>
<b>DISPOSITION OF FUNDS</b>				
Debt Principal Repayments	(80.4)	(65.0)	(54.8)	(89.3)
Capital Expenditures	(204.6)	(345.1)	(486.6)	(241.9)
<b>NET CASH FLOW</b>	<b>(127.5)</b>	<b>(235.0)</b>	<b>(370.2)</b>	<b>(111.3)</b>
<b>BEGINNING BALANCE UNRESTRICTED CASH</b>	<b>192.3</b>	<b>257.6</b>	<b>277.7</b>	<b>162.4</b>
<b>NEW DEBT ISSUED</b>	<b>200.0</b>	<b>250.0</b>	<b>250.0</b>	<b>200.0</b>
<b>CHANGE IN RESTRICTED FUNDS</b>	<b>(7.2)</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>
<b>ENDING BALANCE UNRESTRICTED CASH</b>	<b>257.6</b>	<b>277.7</b>	<b>162.4</b>	<b>256.1</b>

**PRO FORMA CAPITAL EXPENDITURES**  
\$ Millions

	2010 BUDGET	2011 PROJECTION	2012 PROJECTION
Distribution	83.5	64.7	70.0
Energy Supply	113.2	255.6	80.1
Customer	96.1	136.4	10.0
Technology	25.7	14.7	20.0
Internal Services	26.7	15.3	61.8
<b>TOTAL CAPITAL EXPENDITURES</b>	<b>345.1</b>	<b>486.6</b>	<b>241.9</b>

SACRAMENTO MUNICIPAL UTILITY DISTRICT  
ANNUAL SALES DATA BY RATE SCHEDULE - 2009  
UNAUDITED

	RATE CATEGORY	2009 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR		ESTIMATED UNBILLED - DEC. 31, 2009	
			KWH	REVENUE	KWH	REVENUE
AGRICULTURAL	AOD	3	261476	34628.17	3544	602
	AON	4	73447	8284.84	1	18
	ASD	494	47416746	4783420.28	1727867	203511
	ASN	1879	19735120	2270014.76	392377	52622
	ASN-BH	1	0	-18203.83	0	0
	Various*	0	0	0	0	0
TOTAL AGRICULTURAL		2381	67486789	7078144.22	2123789	256753
SMALL COMMERCIAL	GFN	448	70479	52183.75	4072	3104
	GSN	48173	578856047	69020331.03	32680329	3994742
	GSN_1	268	2861617	372610.7	181678	24261
	GSN_2	1512	15088489	1897935.11	841382	108375
	GSN_3	1	26482	3301.66	1880	241
	GT4S1	15	183842	19822.49	0	0
	Various*	0	-23755000	-1383579.55	0	0
	TOTAL SMALL COMMERCIAL	50417	573331956	69982605.19	33709341	4130723
INDUSTRIAL	GSS_S	11146	1903892065	216989377.2	106112482	12300542
	GSS_S1	18	4197453	500852.96	275747	33270
	GSS_S2	86	10324616	1248423.18	594524	71468
	GT4S2	6	552261	64887.44	0	0
	GUP_S	42	21735071	2338251.54	1645498	146090
	GUS_S	906	789206045	81622786.28	49955566	4421625
	GUS_S1	1	904000	116897.66	0	0
	GUS_S2	4	2468840	264300.04	123912	11608
	Sub-total	12206	2733280351	303145776.3	158707729	16984603
	GUP_M	18	36681840	3405646.74	2370742	188894
	GUP_M1	1	367200	72676.25	9774	2610
	GUS_M	296	721340412	68952396.6	47274997	3877541
	GUS_M1	3	9665800	1010709.36	818034	74831
	GUS_M2	2	8491800	816073.44	686710	57711
	GUT_M	5	2533951	351720.89	170317	27301
	Sub-total	325	779081003	74609223.28	51330574	4228888
	GES_250	0	0	0		
	GET_250	0	0	0		
	GNT_04	1	45733360	4141945.18	4322197	402432
	Sub-total	1	45733360	4141945.18	4322197	402432
	GDT_99	2	117716177	8198708.4	11785313	775346
	GUP_L	32	372599932	31586079.56	21473573	1723781
	GUP_L1	1	13159370	1229697.09	3628840	330692
	GUS_L	97	623555414	58529942.1	41808071	3695779
	GUS_L1	1	5506487	583378.39	1354372	137557
	GUS_L2	1	4295100	429429.24	345795	31953
	GUT_L	18	520058864	41456592.19	42229656	3233542
	a) GUT_L19	1	6844900	849768.45	0	73830
	GUT_L2	0	427000	40649.56	257985	25536
	GUT_L99	1	55084883	3784013.89	5027132	340732
	Various*	0	0	-311136.73	0	0
	Sub-total	154	1719248127	146377122.1	127910737	10368748
	TOTAL INDUSTRIAL	12687	5277342841	528274066.9	342271237	31984671
STREET LIGHTS	SL_CODM	41	833524	85883.87	23829	2677
	SL_COM	330	63708817	3966303.88	1951881	128890
	SL_DOM	571	8605798	2348600.48	274888	81737
	SL_TSF	6	620748	89192.45	18430	2641
	Various*	0	0	72577.99	0	0
TOTAL STREET LIGHTS		948	73768887	6562558.67	2269028	215945
INTERSECTION LGHT	TS	1628	6912789	605788.15	465190	42174
	TS_F	57	98510	9886.95	4065	432
	Various*	0	0	-317.35	0	0
TOTAL INTERSECTION LIGHTS		1684	7011299	615357.75	469255	42606
NIGHT LIGHTS	NLGT @	5500	4240334	1139227.77	184551	52261
	Various*	0	0	21.4	0	0
TOTAL NIGHT LIGHTS		5500	4240334	1139249.17	184551	52261

SACRAMENTO MUNICIPAL UTILITY DISTRICT  
ANNUAL SALES DATA BY RATE SCHEDULE - 2009  
UNAUDITED

	RATE CATEGORY	2009 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR		ESTIMATED UNBILLED - DEC. 31, 2009	
			KWH	REVENUE	KWH	REVENUE
RESIDENTIAL	RSC	15898	210353242	22056556.44	13213563	1238798
	RSC_1	128	1330236	144671.54	83844	8503
	RSC_11	673	9008634	1000738.04	639703	63795
	RSC_12	675	8421362	895713.65	556900	53022
	RSC_13	2	16305	1828.71	881	91
	RSC_14	0	3554	360.67	0	0
	RSC_2	56	591749	61285.43	39791	3687
	RSC_3	11	94141	10301.33	6401	636
	RSC_5	5	43823	5225.21	3714	413
	RSC_6	0	0	0		
	RSC_E	1681	17928791	1209977.39	1125816	67266
	RSC_E1	8	86515	6531.16	4993	358
	RSC_E11	34	401269	30196.76	24111	1561
	RSC_E12	82	864218	60984.26	45130	2822
	RSC_E14	1	12320	909.38	669	47
	RSC_E2	3	32360	2376.57	2620	174
	RSC_EL	142	1848961	111000.65	127973	6873
	RSC_EL1	1	10549	605.03	560	39
	RSC_EL11	5	61406	3972.73	2865	163
	RSC_EL12	7	81134	4535.27	4473	223
	RSC_EL2	0	997	39.7	793	32
	RSC_L	483	7952596	596913.76	479823	31720
	RSC_L1	1	13136	1165.11	1208	88
	RSC_L11	23	443748	36187.52	29633	2106
	RSC_L12	24	385873	29331.41	24330	1652
	RSC_L2	3	34542	2435.78	1266	74
	RSE	68626	603353153	68450181.26	37895901	4265867
	RSE_E	19213	176591449	13181296.51	11455011	828461
	RSE_E1	28	251844	21487.75	14813	1252
	RSE_E11	360	3443711	288340.09	233910	18864
	RSE_E12	1120	10757517	848604.11	695531	52393
	RSE_E13	2	19700	1800.56	1218	100
	RSE_E14	3	16544	1466.53	1303	109
	RSE_E2	4	48029	3773.08	2849	233
	RSE_E3	2	6745	548.44	521	42
	RSE_EL	917	10075369	638460.97	682289	41476
	RSE_EL1	1	9049	519.1	698	39
	RSE_EL11	26	362183	26631.73	27114	1905
	RSE_EL12	68	811897	54755.14	56781	3709
	RSE_L	751	10221836	822314.44	594629	47044
	RSE_L1	0	0	0	0	0
	RSE_L11	34	485888	42593.17	34956	2860
	RSE_L12	64	820033	67802.7	54313	4346
	RSE_L2	0	0	0	0	0
	RSE_1	132	1270951	155061.78	83515	10088
	RSE_11	2080	21158291	2565761.34	1483525	175050
	RSE_12	3880	36242408	4198287.5	2324481	265321
	RSE_13	26	171934	22652.96	13882	1773
	RSE_14	6	45008	5256.85	3148	352
	RSE_2	46	415105	48211.56	28573	3348
	RSE_3	7	62843	8111.06	3779	498
	RSE_4	1	16760	2248.95	1448	203
	RSE_5	2	16274	2084.33	1072	152
	RSE_6	1	6821	804.86	419	48
	RTC	11	233719	25149.71	15687	1508
	RTC_12	2	33288	3801.47	1592	158
	RTE	103	1935220	213247.56	79606	7673
	RTE_11	2	28915	3327.33	1951	194
	RTE_12	2	37588	4365.43	469	47
	RTE_2	0	0	0		
	RTE4S	8	136836	16617.77	0	0
	RTE4S_E	3	47089	3730.72	0	0
	RTE5	7	237792	25511.41	13209	1321
	RTE5_12	0	0	0		
	RTEV	5	6227	459.81	630	45
	RTT	86	1474455	126474.46	53265	4319
	RTT_11	3	57092	5124.98	957	79
	RTT_12	4	64263	5488.52	2477	210
	RWC	1938	38413966	4069264.44	2667517	252544
	RWC_1	15	317082	36651.17	25243	2720
	RWC_11	66	1266507	136209.25	99565	9776
	RWC_12	68	1444205	155860.96	105413	10422
	RWC_2	8	139347	15303.94	7611	776
	RWC_3	0	0	0	0	0
	RWC_E	87	1565571	108404.64	126828	7822
	RWC_E1	0	5549	418.21	0	0
	RWC_E11	1	10696	755.82	1180	62
	RWC_E12	4	100846	7496.12	5743	428
	RWC_EL	7	177147	11933.22	21667	1426
	RWC_EL12	0	0	0		
	RWC_L	81	1839690	133892.53	122223	8202
	RWC_L1	2	34591	3217.62	3618	272
	RWC_L11	6	131472	10086.46	15389	1151
	RWC_L12	5	104012	8535.04	11530	791
	RWE	1840	34244952	4093567.4	2436573	285550
	RWE_1	4	75468	9274.56	6485	767
	RWE_11	57	1305814	166205.8	93728	11810
	RWE_12	73	1513017	187793.07	95812	11280
	RWE_2	4	44477	5231.95	2290	272
	RWE_E	184	3774459	308394.54	301954	24330
	RWE_E1	1	30517	3041.7	2529	234
	RWE_E11	2	53708	4815.97	6103	608
	RWE_E12	7	153123	13640.95	11193	983
	RWE_EL	7	133688	8476.14	10260	611
	RWE_L	44	1084640	93883.7	73042	6089
	RWE_L11	1	22836	2130.48	0	0
	RWE_L12	1	25601	2215.82	1676	139
	Various*	0	0	0		
	Sub-total	122093	1229008268	127762900.9	78541754	7864295

SACRAMENTO MUNICIPAL UTILITY DISTRICT  
ANNUAL SALES DATA BY RATE SCHEDULE - 2009  
UNAUDITED

	RATE CATEGORY	2009 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR		ESTIMATED UNBILLED - DEC. 31, 2009	
			KWH	REVENUE	KWH	REVENUE
RESIDENTIAL	RSG	303663	2602987711	310474519.5	126628233	15332503
	RSG_1	1439	11320620	1422767.51	578585	74026
	RSG_11	11512	102013474	13023541.47	5655048	731616
	RSG_12	17342	145512591	17737950.39	7423057	914292
	RSG_13	78	574533	78581.07	34635	4784
	RSG_14	12	76345	10305.82	2658	362
	RSG_2	573	4537650	544673.05	231130	28376
	RSG_3	93	663438	84484.38	31386	4073
	RSG_4	39	218369	28976.26	11806	1594
	RSG_5	4	39273	5323.98	1979	273
	RSG_6	8	64310	8991.79	2699	383
	RSG_E	52439	399403824	30917389.85	20821579	1610557
	RSG_E1	116	779651	66478.21	42271	3571
	RSG_E11	986	7749129	675345.58	435710	38366
	RSG_E12	2803	22138450	1827192.48	1178132	97514
	RSG_E13	2	16700	1517.45	1459	134
	RSG_E14	1	5834	534.93	0	0
	RSG_E2	50	333741	26500.1	19179	1572
	RSG_E3	5	37227	3351.3	1382	123
	RSG_EL	2442	23656784	1612665.6	1263457	86220
	RSG_EL1	4	30475	2088.84	1659	99
	RSG_EL11	63	625088	47940.65	35205	2696
	RSG_EL12	133	1352275	98982.77	77115	5920
	RSG_EL2	1	3076	152.61	0	0
	RSG_EL5	1	11378	1257.39	112	14
	RSG_L	5258	62293344	5284639.08	2957206	253372
	RSG_L1	25	279457	26853.51	14706	1449
	RSG_L11	219	2690010	247112.18	140035	12971
	RSG_L12	316	3662955	322720.11	167930	14944
	RSG_L13	1	5838	521.73	428	37
	RSG_L2	14	147741	12675.04	7377	657
	RSG_L3	3	29260	2569.11	1469	137
	RSG_L5	0	252	22.86	0	0
	RTG	96	1376584	156245.09	43366	4323
	RTG_1	1	12646	1568.8	0	0
	RTG_11	6	81455	9870.12	1135	121
	RTG_12	7	86012	10126.43	3384	346
	RTG4S	63	609669	62935.24	0	0
	RTG4S_E	8	63194	3887.32	0	0
	RTG5	44	849404	96027.96	45190	4645
	RWG	3088	43456170	5217564.53	2743131	329799
	RWG_1	14	164423	21205.66	8603	1080
	RWG_11	83	1196293	150663.26	107191	13756
	RWG_12	90	1275313	155828.16	86699	10751
	RWG_2	3	42191	5686.87	1174	124
	RWG_3	2	23594	2830.74	608	67
	RWG_E	213	3080283	250166.74	204444	16520
	RWG_E1	0	1415	127.85	1035	94
	RWG_E11	2	32377	2634.87	1437	106
	RWG_E12	15	184588	14856.85	11622	912
	RWG_E2	1	11631	814.68	336	23
	RWG_EL	10	152331	10089.8	10185	685
	RWG_EL11	1	11913	813.93	64	7
	RWG_L	62	1099706	93332.49	71481	5973
	RWG_L11	2	27477	2206.16	2016	177
	RWG_L12	4	61216	5236.96	2771	225
	Various*	0	0	-1909000.77	0	0
	Subtotal	403455	3447160688	388964346.4	171113499	19612369
	RMHP	80	28617899	2564511.68	1562331	138627
	Various*	0	0	0		
TOTAL RESIDENTIAL		525628	4704786855	519291759	251217584	27615291
TOTAL ALL CLASSES		593744	10707968961	1132943741	632244785	64298250

# Customer count per Monthly General Ledger Balancing Report totals (SMUD properties excluded). a) Co-gen account with Facilities and Minimum Charges.

@ Night Light customers not included in customer count.

\* Manual adjustments to billings, unreconciled differences within SAP, and other adjustments.



SACRAMENTO MUNICIPAL UTILITY DISTRICT  
ANNUAL SALES DATA BY RATE SCHEDULE - 2008  
UNAUDITED

FINAL

	RATE CATEGORY	2008 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR		ESTIMATED UNBILLED - DEC. 31, 2008	
			KWH	REVENUE	KWH	REVENUE
AGRICULTURAL	AOD	4	329,616	44,979.31	3,530	578.98
	AON	4	77,161	7,794.08	5	21.00
	ASD	463	51,032,424	5,057,927.52	1,967,699	218,169.41
	ASN	1,891	23,442,198	2,642,236.15	471,852	59,093.82
	ASN-BH	0	(1,680)	(2,180.41)	0	0.00
	Various*	0	0	(107.00)	0	0.00
TOTAL AGRICULTURAL		<b>2,363</b>	<b>74,879,719</b>	<b>7,750,649.65</b>	<b>2,443,086</b>	<b>277,863.21</b>
SMALL COMMERCIAL	GFN	288	36,404	31,908.45	3,668	2,440.99
	GSN	47,968	608,617,636	71,457,058.78	35,211,634	4,104,945.57
	GSN_1	247	2,271,793	295,730.86	186,419	23,834.94
	GSN_2	1,549	15,759,255	1,957,976.95	918,113	113,365.17
	GSN_3	0	0	0.00	0	0.00
	GT4S1	44	486,844	59,451.24	24,961	2,685.73
	Various*	0	(26,082,000)	(1,416,953.29)	0	0.00
TOTAL SMALL COMMERCIAL		<b>50,096</b>	<b>601,089,932</b>	<b>72,385,172.99</b>	<b>36,344,795</b>	<b>4,247,272.40</b>
INDUSTRIAL	GSS_S	11,242	2,023,836,253	226,783,592.58	119,818,464	13,295,615.39
	GSS_S1	14	3,222,693	381,655.50	274,026	30,899.35
	GSS_S2	84	9,038,840	1,088,834.73	594,597	71,445.57
	GT4S2	17	1,603,012	195,111.35	84,241	9,867.34
	GUP_S	44	24,207,004	2,582,167.09	1,758,525	151,222.72
	GUS_S	798	790,712,323	80,324,177.02	50,916,209	4,290,528.74
	GUS_S1	1	880,000	108,770.20	33,952	3,450.10
	GUS_S2	4	2,650,860	283,031.72	190,252	16,929.72
	Sub-total	12,202	2,856,150,985	311,747,340.19	173,670,266	17,869,958.93
	GUP_M	19	39,292,980	3,615,842.00	2,623,216	202,572.00
	GUP_M1	1	409,200	77,603.64	18,982	3,534.14
	GUS_M	294	749,237,077	70,786,814.94	47,464,432	3,743,574.56
	GUS_M1	3	9,418,800	972,824.59	966,488	85,793.73
	GUS_M2	3	12,019,500	1,174,880.32	911,916	74,329.66
	GUT_M	5	3,286,522	393,376.18	218,526	28,301.73
	Sub-total	325	813,664,079	77,021,341.67	52,203,560	4,138,105.82
	GES_250	0	0	0.00	0	0.00
	GET_250	0	0	0.00	0	0.00
	GNT_4	1	55,167,305	4,309,266.19	4,878,456	402,641.57
	Sub-total	1	55,167,305	4,309,266.19	4,878,456	402,641.57
	GDT_99	2	115,866,002	8,029,817.13	9,914,193	621,630.38
	GUP_L	32	398,880,165	33,388,207.14	28,634,288	2,232,664.46
	GUS_L	95	634,855,228	58,902,178.14	48,718,732	4,103,949.84
	GUS_L1	0	0	0.00	0	0.00
	GUS_L2	0	1,185,822	120,998.52	418,785	37,927.66
	GUT_L	17	534,690,226	42,123,248.54	35,585,982	2,611,037.36
	a) GUT_L19	1	465,736	394,952.32	0	36,106.00
	GUT_L99	1	64,270,485	4,275,284.80	3,084,922	220,992.34
	Various*	0	0	(788,946.27)	0	0.00
	Sub-total	148	1,750,213,664	146,445,740.32	126,356,902	9,864,308.04
TOTAL INDUSTRIAL		<b>12,676</b>	<b>5,475,196,033</b>	<b>539,523,688.37</b>	<b>357,109,184</b>	<b>32,275,014.36</b>
STREET LIGHTS	SL_CODM	41	856,541	85,834.73	30,980	3,176.54
	SL_COM	335	62,182,834	3,852,182.48	2,391,775	151,022.39
	SL_DOM	565	8,878,274	2,336,587.48	350,458	95,620.07
	SL_TSF	6	592,120	85,981.59	30,593	5,731.12
	Various*	0	0	232,316.85	0	0.00
TOTAL STREET LIGHTS		<b>947</b>	<b>72,509,769</b>	<b>6,592,903.13</b>	<b>2,803,806</b>	<b>255,550.12</b>
INTERSECTION LGHT	TS	1,588	7,046,794	608,435.40	509,909	44,073.44
	TS_F	56	89,143	8,918.50	4,006	410.72
	Various*	0	0	0.00	0	0.00
TOTAL INTERSECTION LIGHTS		<b>1,644</b>	<b>7,135,937</b>	<b>617,353.90</b>	<b>513,915</b>	<b>44,484.16</b>
NIGHT LIGHTS	NLGT @	5,650	4,358,192	1,154,690.01	191,666	51,728.95
	Various*	0	0	(7.35)	0	0.00
TOTAL NIGHT LIGHTS		<b>5,650</b>	<b>4,358,192</b>	<b>1,154,682.66</b>	<b>191,666</b>	<b>51,728.95</b>

	RATE CATEGORY	AVERAGE OF CUSTOMERS	BILLED THIS YEAR		ESTIMATED UNBILLED - DEC. 31, 2008	
			KWH	REVENUE	KWH	REVENUE
RESIDENTIAL	RSC	17,117	227,811,151	23,637,301.98	13,187,256	1,116,634.26
	RSC_1	143	1,474,621	158,062.80	83,225	7,642.41
	RSC_11	613	8,251,851	906,115.18	529,620	49,041.21
	RSC_12	659	8,299,798	874,710.05	497,949	43,009.58
	RSC_13	2	7,980	962.72	405	42.10
	RSC_14	1	18,280	2,204.59	916	91.20
	RSC_2	64	668,072	69,023.56	41,030	3,512.16
	RSC_3	13	105,065	10,927.28	6,371	583.01
	RSC_5	6	55,009	6,239.32	3,152	328.63
	RSC_6	0	0	0.00	0	0.00
	RSC_E	1,621	16,683,556	1,117,044.54	1,023,216	57,087.31
	RSC_E1	12	124,183	9,677.83	9,915	702.20
	RSC_E11	31	361,894	27,826.01	22,404	1,384.41
	RSC_E12	81	832,967	59,836.86	48,733	2,852.03
	RSC_E14	1	13,950	1,082.30	620	40.06
	RSC_E2	3	29,858	2,152.95	2,241	131.23
	RSC_EL	135	1,683,784	99,996.48	106,439	4,883.58
	RSC_EL1	1	9,690	539.30	588	42.07
	RSC_EL11	4	42,990	2,846.06	3,327	164.30
	RSC_EL12	7	77,418	4,312.05	3,760	180.34
	RSC_L	464	7,516,213	559,087.92	470,498	28,075.35
	RSC_L1	1	14,117	1,184.83	0	0.00
	RSC_L11	19	350,805	29,429.71	27,710	1,795.17
	RSC_L12	22	351,639	26,299.43	19,780	1,215.15
	RSC_L2	4	58,073	4,356.25	2,438	136.22
	RSE	72,598	641,540,586	71,852,707.65	36,807,477	3,844,686.29
	RSE_E	14,761	133,372,093	9,916,961.57	8,659,950	597,049.19
	RSE_E1	23	189,233	15,828.86	12,583	991.73
	RSE_E11	241	2,208,681	182,057.02	151,844	11,587.38
	RSE_E12	844	7,989,567	629,452.97	518,447	37,689.23
	RSE_E13	1	9,744	979.01	2,158	194.36
	RSE_E14	2	8,829	825.40	1,339	117.18
	RSE_E2	3	33,900	2,508.72	2,552	182.29
	RSE_E3	2	6,260	514.95	568	46.08
	RSE_EL	744	8,091,209	509,715.90	506,525	27,782.82
	RSE_EL1	1	7,475	418.61	1,086	59.11
	RSE_EL11	17	225,020	17,102.55	16,348	1,085.93
	RSE_EL12	56	662,205	44,265.53	44,631	2,618.58
	RSE_L	738	9,703,834	773,685.77	591,870	42,609.87
	RSE_L1	3	42,378	3,890.00	0	0.00
	RSE_L11	28	382,202	32,925.30	27,034	2,160.84
	RSE_L12	51	598,859	47,397.81	42,944	3,236.65
	RSE_L2	0	2,008	138.85	0	0.00
	RSE_1	150	1,444,057	175,131.78	87,300	9,972.48
	RSE_11	1,898	18,437,468	2,206,110.48	1,226,491	136,919.57
	RSE_12	4,265	39,349,513	4,504,458.71	2,215,288	236,804.14
	RSE_13	14	86,796	11,085.63	7,038	868.48
	RSE_14	2	9,741	1,120.84	1,332	151.23
	RSE_2	51	461,851	52,239.15	26,277	2,783.87
	RSE_3	9	93,591	11,477.79	5,235	606.04
	RSE_4	1	6,662	813.70	1,186	148.25
	RSE_5	3	18,728	2,319.26	1,352	163.24
	RSE_6	1	6,551	762.35	502	54.11
	RTC	11	239,080	25,330.89	15,437	1,421.49
	RTC_12	2	27,025	3,151.10	1,498	144.29
	RTE	108	2,017,586	219,734.10	88,592	8,250.53
	RTE_11	2	30,700	3,524.09	1,574	152.29
	RTE_12	2	35,773	4,069.78	897	85.19
	RTE_2	0	0	0.00	0	0.00
	RTE4S	25	339,812	44,956.72	20,054	2,373.14
	RTE4S_E	9	103,639	9,229.25	5,453	405.74
	RTE5	7	249,003	26,751.61	14,217	1,390.45
	RTE5_12	0	0	0.00	0	0.00
	RTEV	5	5,829	428.48	391	27.07
	RTT	90	1,521,720	128,164.99	56,966	4,205.38
	RTT_11	4	71,454	6,140.41	1,969	151.23
	RTT_12	4	69,540	5,893.65	6,054	471.86
	RWC	2,064	41,968,662	4,425,127.45	2,655,296	227,116.10
	RWC_1	16	335,727	38,773.91	24,629	2,373.14
	RWC_11	57	1,063,029	112,637.49	83,670	7,423.04
	RWC_12	69	1,459,031	157,764.09	102,947	9,354.45
	RWC_2	8	143,814	15,431.30	9,036	888.57
	RWC_3	1	11,846	1,164.20	0	0.00
	RWC_E	72	1,244,627	84,958.42	101,868	5,763.13
	RWC_E1	1	22,634	1,809.82	1,547	106.21
	RWC_E12	4	89,710	6,579.96	6,283	436.76
	RWC_EL	5	148,020	11,354.22	7,790	469.84
	RWC_EL12	0	0	0.00	0	0.00
	RWC_L	67	1,507,278	111,288.91	118,453	7,115.49
	RWC_L11	5	123,924	9,244.53	9,190	589.03
	RWC_L12	2	53,958	4,139.02	3,500	200.34
	RWE	1,833	34,980,736	4,159,384.60	2,312,643	251,996.83
	RWE_1	4	75,099	9,132.02	6,254	668.18
	RWE_11	57	1,258,306	156,702.26	91,762	10,588.58

	RATE CATEGORY	AVERAGE OF CUSTOMERS	BILLED THIS YEAR		ESTIMATED UNBILLED - DEC. 31, 2008	
			KWH	REVENUE	KWH	REVENUE
RESIDENTIAL	RWE_12	72	1,487,042	181,019.47	100,458	11,468.21
	RWE_2	4	66,877	7,937.88	2,437	269.44
	RWE_E	113	2,285,386	185,959.98	198,751	14,901.17
	RWE_E1	0	2,664	233.65	2,579	223.43
	RWE_E11	2	38,482	3,052.16	730	53.07
	RWE_E12	5	95,631	8,362.14	7,070	546.93
	RWE_EL	8	136,463	8,778.20	8,410	392.70
	RWE_L	33	807,028	69,402.84	56,515	4,362.64
	RWE_L11	1	34,517	3,201.09	294	26.09
	RWE_L12	1	19,707	1,740.80	2,021	172.34
RESIDENTIAL	Various*	0	0	0.00	0	0.00
ELECTRIC HEAT	Sub-total	122,300	1,234,003,364	128,860,671.64	73,178,185	6,856,727.29
	RSG	316,645	2,732,737,975	322,500,402.70	134,900,553	15,327,677.24
	RSG_1	1,639	12,908,581	1,602,944.56	661,511	79,548.73
	RSG_11	9,949	88,513,533	11,186,666.27	4,904,588	601,122.37
	RSG_12	17,155	143,575,293	17,314,753.36	7,282,634	847,827.91
	RSG_13	57	383,919	52,190.40	32,003	4,320.56
	RSG_14	9	45,825	5,890.12	3,975	465.82
	RSG_2	627	5,032,954	600,807.22	267,813	30,918.38
	RSG_3	99	707,228	87,548.13	38,779	4,646.15
	RSG_4	46	262,341	34,043.18	14,114	1,814.21
	RSG_5	4	36,314	4,874.14	2,302	312.54
	RSG_6	10	89,056	12,761.21	2,884	394.68
	RSG_E	40,223	299,832,926	23,086,017.25	16,892,822	1,256,645.32
	RSG_E1	102	665,684	57,033.97	37,332	3,081.45
	RSG_E11	633	4,832,709	420,703.69	292,646	25,134.15
	RSG_E12	2,007	15,605,681	1,281,540.62	892,136	70,951.70
	RSG_E14	0	1,918	175.89	709	66.09
	RSG_E2	41	255,367	20,455.82	15,263	1,190.11
	RSG_E3	6	46,217	4,207.33	2,161	175.32
	RSG_EL	1,872	17,912,789	1,216,882.89	1,048,438	67,241.14
	RSG_EL1	5	42,455	3,124.41	3,271	235.43
	RSG_EL11	38	353,225	25,941.50	25,157	1,797.14
	RSG_EL12	93	984,322	72,248.90	54,639	3,780.64
	RSG_EL2	2	20,623	1,389.81	324	16.05
	RSG_EL5	0	3,387	352.05	290	30.10
	RSG_L	4,893	57,158,995	4,805,935.24	3,037,322	243,503.87
	RSG_L1	27	268,155	25,050.24	14,745	1,342.37
	RSG_L11	184	2,286,859	210,810.96	128,788	11,358.93
	RSG_L12	274	3,244,901	283,117.04	171,590	14,300.17
	RSG_L2	12	118,509	9,755.47	7,340	594.05
	RSG_L3	2	20,214	1,718.96	1,030	87.17
	RSG_L5	1	3,156	291.26	165	16.00
	RTG	99	1,437,478	161,664.09	53,934	5,141.06
	RTG_1	1	15,063	1,797.39	349	36.10
	RTG_11	4	50,013	5,914.11	1,566	159.31
	RTG_12	6	82,378	9,458.38	2,389	233.39
	RTG4S	183	1,646,250	199,059.15	88,303	9,183.12
	RTG4S_E	24	212,783	17,672.82	9,243	561.97
	RTG5	46	898,279	99,283.20	49,551	4,873.56
	RWG	3,120	44,709,203	5,327,501.07	2,768,793	314,819.28
	RWG_1	14	167,137	21,746.91	10,030	1,227.20
	RWG_11	68	954,726	117,284.57	69,799	8,352.72
	RWG_12	88	1,278,590	153,157.74	79,676	9,097.99
	RWG_2	3	52,942	7,198.10	5,467	758.39
	RWG_3	2	28,981	3,529.82	607	66.11
	RWG_E	176	2,376,120	189,324.41	168,930	13,210.23
	RWG_E11	1	11,590	872.96	1,383	96.14
	RWG_E12	8	92,570	7,376.76	7,328	543.97
	RWG_E2	2	26,423	2,127.07	1,410	94.13
	RWG_EL	8	131,698	9,188.70	8,900	603.08
	RWG_EL11	1	26,061	2,212.13	757	59.08
	RWG_L	57	1,007,628	85,497.47	78,138	6,145.78
	RWG_L11	2	33,409	2,611.59	3,115	237.38
	RWG_L12	2	42,036	3,582.08	670	57.09
RESIDENTIAL NON-ELECTRIC HEAT	Various*	0	0	(1,551,912.05)	0	0.00
	Subtotal	400,571	3,443,232,469	389,805,783.06	174,147,662	18,976,152.87
	RMHP	81	28,714,203	2,594,977.00	1,574,379	136,466.84
	Various*	0	0	0.00		
TOTAL RESIDENTIAL		522,951	4,705,950,036	521,261,431.70	248,900,226	25,969,347.00
TOTAL ALL CLASSES		590,678	10,941,119,618	1,149,285,882.40	648,306,678	63,121,260.20

# Customer count per Monthly General Ledger Balancing Report totals (SMUD properties excluded). a) Co-gen account with Facilities and Minimum Charges.

@ Night Light customers not included in customer count.

\* Manual adjustments to billings, unreconciled differences within SAP, and other adjustments.



## **Appendix C. – New and Revised Tariffs**



# Agricultural Service Rate Schedule AG

## I. Applicability

This schedule is applicable to single or 3 phase service, delivered at such nominal voltage as the customer selects from among those which SMUD designates are available at the customer's premises, for pumping loads where a preponderance of the load is devoted to agricultural purposes, farm lighting, feed choppers, milking machines, heating for incubators, brooders and other farm uses; to drainage pumping loads where a preponderance of the area drained is agricultural; and to irrigation pumping loads for non-agricultural purposes where the entire loads, except for minor incidental uses are devoted to such pumping. This schedule is applicable to customer accounts with billing demands that do not exceed 300 kW for 3 or more consecutive months.

## II. Non-Demand Metered Rates

This rate is for general service customers having a demand of 30 kW or less. Whenever use of energy by non-demand metered general service customers is 12,000 kWh or more for 3 consecutive months or whenever, in SMUD's judgment, the demand will exceed 30 kW, a demand meter will be installed and the customer will be billed on the applicable demand metered rate. The customer will be billed on the demand-metered rate until the demand falls below 31 kW and energy is less than 8,750 kWh for 12 consecutive months before being returned to the ASN rate.

Small Agricultural Service ASN	Summer	Winter
Service Charge per month or portion thereof	\$9.90	\$9.90
Energy Charge (¢ per kWh) – all kWh	11.98¢	10.95¢

**Solar Surcharge is applied to all kWh as outlined in Sheet No. 1-SB-1**

## III. Demand Metered Rates

This rate is for general service customers having a demand of 31 kW or more and whereby a demand meter is installed. The demand for any month will be the maximum 15-minute kW delivery during the month. The customer will be billed on the demand-metered rate until the demand falls below 31 kW and energy is less than 8,750 kWh for 12 consecutive months before being returned to the ASN rate.

Large Agricultural Demand-Metered Service ASD	Summer	Winter
Service Charge per month or portion thereof	\$22.90	\$22.90
Facilities Charge per 12 month maximum kW or installed capacity		
First 30 kW	No Charge	No Charge
Additional kW per month	\$2.25	\$2.25
Energy Charge (¢ per kWh)		
First 8,750 kWh per month	11.61¢	12.12¢
Additional kWh per month	8.40¢	9.50¢

**Solar Surcharge is applied to all kWh as outlined in Sheet No. 1-SB-1**

## IV. Optional Time-of-use Rates

This optional rate is for non-demand metered small agricultural customers and demand metered large agricultural customers. Transfers to the agricultural TOU schedule must remain in effect for at least 4 months. Customers cannot return to service under this schedule for 12 months. Service under this schedule is subject to meter availability.

Small Agricultural Time-of-use Service AON	Summer	Winter
Service Charge per month or portion thereof	\$13.20	\$13.20
Energy Charge (¢ per kWh)		
On-peak period	18.25¢	12.59¢
Off-peak period	9.81¢	10.73¢
Large Agricultural Time-of-use Service AOD	Summer	Winter
Service Charge per month or portion thereof	\$79.65	\$79.65
Demand Charge (\$ per kW)	\$3.15	\$2.25
Energy Charge (¢ per kWh)		
On-peak period	19.40¢	12.54¢
Off-peak period	10.34¢	10.64¢

**Solar Surcharge is applied to all kWh as outlined in Sheet No. 1-SB-1**

# Agricultural Service Rate Schedule AG

## V. Discontinuance of Service

Any customer resuming service within 12 months after discontinuing service will be required to pay the facilities charges and service charges that would have been billed if service had not been discontinued, except when a customer agrees to lock out service during the full period of June through September. The facilities charge and service charge will be waived during each of those months.

## VI. Rate Option Menu

### (A) Standby Service Option

This option is for general service customers who operate, in whole or in part, customer-owned generator(s) on their premises and where 1) the output connects to SMUD's electrical system, and 2) SMUD must stand ready to provide backup or maintenance service to replace the generator(s).

#### Standby Service Charge (\$/kW of Contract Capacity per month)

Secondary Distribution Voltage.....	\$6.25
Primary Distribution Voltage.....	\$4.95
69 kV Voltage.....	\$2.50

"Contract Capacity" is a fixed kilowatt value determined by the rating of the generator unit. In addition to the standby service charge, SMUD will continue to bill for all applicable charges under this rate schedule. These charges include customer and facility charges, as well as demand and energy charges for District-provided power.

### (B) Green Pricing Options

#### SMUD Community Solar Option

Customers electing this premium service option will receive an additional charge for monthly energy of no less than 1 cent and no greater than 2 cents per kWh. Contributions will be held until sufficient funds are available for construction of a solar roof top system.

#### SMUD Renewable Energy Option

Customers electing this premium power service will receive an additional charge for monthly energy of no less than 1/2 cent and no greater than 2 cents per kWh. SMUD may offer up to 3 premium rate options representing various blends of renewable resources within the 1/2 cent to 2 cent range. The actual prices will be published each November and will be based on the expected above market cost of renewable resources for the upcoming year. Participation will be limited to the amount of resources that SMUD is able to secure below the 2 cent premium limit.

### (C) Net Metering for Solar Electric, Wind Turbine, and Biomass Generation Facilities

Please see Sheet No. 1-NM-1 for details on the Net Metering option.

## VII. Special Metering Charge

For customers who purchase and install communications hardware and software to transfer energy load data from their meter/recorders to a personal computer, SMUD will charge a monthly service fee to cover maintenance, software support and the annual licensing fee.

## VIII. Conditions

### (A) Type of Electric Service

#### Firm Service

Standard service where SMUD provides a continuous and sufficient supply of electricity.

### (B) Service Voltage Definition

The following defines the 3 voltage classes available. The rate shall be determined by the voltage level at which service is taken according to the following:

#### 1. Secondary

This is the voltage class if the definition of "primary" and "69 kV" do not apply to a customer's service.

#### 2. Primary

This is the voltage class if a customer elects to accept service at a voltage level of 12 kV or 21 kV that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 300 kW.

#### 3. 69 kV

This is the voltage class if a customer elects to accept service at a voltage level of 69 kV or higher that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 500 kW.



# Agricultural Service Rate Schedule AG

## (C) Power Factor Adjustment

Accounts with demands of 20 kW or greater may be subject to a power factor adjustment. SMUD, at its option, may place VAR metering equipment to record reactive power conditions. Effective January 1, 1998, when a customer's monthly power factor falls below 95% leading or lagging, the following billing adjustment will apply

$$\text{Energy} \times \$0.0098 \times \left( \frac{95\%}{\text{Power Factor}} - 1 \right)$$

*Energy* = the total monthly kWh for the account

*Power Factor* = the lesser of the customer's monthly power factor or 95%

Customers that contract with SMUD for power factor corrections will have the power factor adjustment waived for the portion that is covered under the contract.

The fee for correction per KVAR .....\$0.2588

KVAR = maximum 12 month KVAR in excess of 33% of kW.

## (D) Agricultural Time-of-Use Rate Periods

The following defines the time period definitions for the Agricultural time-of-use- rates:

Agricultural Time-of-Use rate periods (Applicable to Rate Categories AON & AOD)

On-peak hours include the following:

WINTER SEASON - NOVEMBER 1 Through APRIL 30

Weekdays: Between 7:00 a.m. and 10:00 a.m. and 5:00 p.m. and 8:00 p.m.

SUMMER SEASON - MAY 1 Through OCTOBER 31

Weekdays: Between 2:00 p.m. and 8:00 p.m.

Off-peak hours include the following: All day on Saturdays, Sundays and the following holidays:

New Year's Day	January 1
Martin Luther King Jr.'s Birthday	3rd Mon. in Jan.
Lincoln's Birthday	February 12
Presidents Day	3rd Mon. in Feb.
Memorial Day	Last Mon. in May
Independence Day	July 4.
Labor Day	1st Mon. in Sep.
Columbus Day	2nd Mon. in Oct.
Veterans Day	November 11
Thanksgiving Day	4th Thu. in Nov.
Christmas Day	December 25

and all other hours not defined as super-peak or on-peak.

## (E) Billing

### PRORATION OF CHARGES

BILLING CIRCUMSTANCE	Service Charge	Facilities Charges & Energy Charges	BASIS OF PRORATION
Less than 27 days or more than 34 days	Yes	Yes	Relationship between the length of the billing period and 30 days.
Winter/Summer crossover	Yes	Yes	Relationship between the length of the billing period and the number of days winter and summer.

Meter reading for service rendered in accordance with this rate will not be combined for billing purposes unless the convenience of SMUD is served thereby.

(End)



# General Service Rate Schedule GS

## I. Applicability

This schedule is applicable to single or 3 phase service, delivered at such nominal voltage as the customer selects from among those which SMUD designates are available at the customer's premises, for general service customers including commercial, industrial, including non-agricultural irrigation pumping and other non-residential customers. This schedule is applicable to customer accounts with billing demands that do not exceed 300 kW for 3 or more consecutive months.

## II. Non-Demand Metered Rates

This rate is for general service customers having a demand of 20 kW or less. Whenever use of energy by non-demand metered general service customers is 7,300 kWh or more for 3 consecutive months or whenever, in SMUD's judgment, the demand will exceed 20 kW, a demand meter will be installed and the customer will be billed on the applicable demand metered rate. The customer will be billed on the demand-metered rate until the demand falls below 21 kW and energy is less than 7,300 kWh for 12 consecutive months before being returned to the GSN rate.

Small Commercial GSN	Summer May 1 – Oct. 31	Winter Nov. 1 – Apr. 30
Service Charge per month or portion thereof	\$8.25	\$8.25
Energy Charge (¢ per kWh) – all kWh	12.71¢	12.30¢

**Solar Surcharge is applied to all kWh as outlined in Sheet No. 1-SB-1**

## III. Demand Metered Rates

This rate is for general service customers having a demand of 21 kW or more and whereby a demand meter is installed. The demand for any month will be the maximum 15-minute kW delivery during the month. The customer will be billed on the demand-metered rate until the demand falls below 21 kW and energy is less than 7,300 kWh for 12 consecutive months before being returned to the GSN rate.

Small Commercial Demand-Metered Service GSS	Summer May 1 – Oct. 31	Winter Nov. 1 – Apr. 30
Service Charge per month or portion thereof	\$20.50	\$20.50
Facilities Charge per 12 month maximum kW or installed capacity		
First 20 kW	No Charge	No Charge
Additional kW per month	\$6.80	\$6.80
Energy Charge (¢ per kWh)		
First 7,300 kWh per month	12.67¢	11.48¢
Additional kWh per month	9.76¢	9.15¢

**Solar Surcharge is applied to all kWh as outlined in Sheet No. 1-SB-1**

## IV. Optional Time-of-use Rates

Commercial and industrial demand metered customers below 300 kW may choose to be served under the small commercial time-of-use rate schedule (GS-TOU3). Transfers from "time-of-use" rate schedules may not be made more than 1 time in a 4-month period. Customers cannot return to Time-of-use service for 12 months.

## V. Discontinuance of Service

Any customer resuming service within 12 months after discontinuing service will be required to pay the facilities charges and service charges that would have been billed if service had not been discontinued, except when a customer agrees to lock out service during the full period of June through September. The facilities charge and service charge will be waived during each of those months.

## VI. Rate Option Menu

### (A) Energy Assistance Program for Non-Profit Agencies

Please see Sheet No. 1-EAPR-1 for details on the Energy Assistance Program.

### (B) Standby Service Option

This option is for general service customers who operate, in whole or in part, customer-owned generator(s) on their premises and where 1) the output connects to SMUD's electrical system, and 2) SMUD must stand ready to provide backup or maintenance service to replace the generator(s).

# General Service Rate Schedule GS

## Standby Service Charge (\$/kW of Contract Capacity per month)

Secondary Distribution Voltage .....	\$6.25
Primary Distribution Voltage .....	\$4.95
69 kV Voltage .....	\$2.50

“Contract Capacity” is a fixed kilowatt value determined by the rating of the generator unit. In addition to the standby service charge, SMUD will continue to bill for all applicable charges under this rate schedule. These charges include customer and facility charges, as well as demand and energy charges for District-provided power.

## (C) Plug-in Electric Vehicle (PEV) Option

Owners of licensed commercial plug-in electric vehicles (PEV) and/or commercial battery electric or plug-in hybrid electric vehicles (PHEV) may choose to have a charging location be billed under GSTOU2. The term PEV is meant to be inclusive of both Battery Electric Vehicle and Plug-in Hybrid Electric Vehicles.

## (D) Green Pricing Options

### SMUD Community Solar Option

Customers electing this premium service option will receive an additional charge for monthly energy of no less than 1¢ and no greater than 2¢ per kWh. Contributions will be held until sufficient funds are available for construction of a solar roof top system.

### SMUD Renewable Energy Option

Customers electing this premium power service will receive an additional charge for monthly energy of no less than 1/2¢ and no greater than 2¢ per kWh. SMUD may offer up to 3 premium rate options representing various blends of renewable resources within the 1/2¢ to 2¢ range. The actual prices will be published each November and will be based on the expected above market cost of renewable resources for the upcoming year. Participation will be limited to the amount of resources that SMUD is able to secure below the 2¢ premium limit.

## (E) Implementation of Energy Efficiency Program or Installation of New Solar/Photovoltaic Systems

Customers who implement a District-sponsored Energy Efficiency program or a District-approved solar/photovoltaic system to offset their on-site energy usage may request a reset of their 12-month historical demand upon completion of the project.

## (F) Net Metering for Solar Electric, Wind Turbine, and Biomass Generation Facilities

Please see Sheet No. 1-NM-1 for details on the Net Metering option

## VII. Special Metering Charge

For customers who purchase and install communications hardware and software to transfer energy load data from their meter/recorder to a personal computer, SMUD will charge a monthly service fee to cover maintenance, software support and the annual licensing fee.

## VIII. Conditions

### (A) Type of Electric Service

#### Firm Service

Standard service where SMUD provides a continuous and sufficient supply of electricity.

### (B) Service Voltage Definition

The following defines the 3 voltage classes available. The rate shall be determined by the voltage level at which service is taken according to the following:

#### 1. Secondary

This is the voltage class if the definition of “primary” and “69 kV” do not apply to a customer’s service.

#### 2. Primary

This is the voltage class if a customer elects to accept service at a voltage level of 12 kV or 21 kV that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 300 kW.

#### 3. 69 kV

This is the voltage class if a customer elects to accept service at a voltage level of 69 kV or higher that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 500 kW.

# General Service Rate Schedule GS

## (C) Power Factor Adjustment

Accounts on a demand rate may be subject to a power factor adjustment. SMUD, at its option, may place VAR metering equipment to record reactive power conditions. Effective January 1, 1998, when a customer's monthly power factor falls below 95% leading or lagging, the following billing adjustment will apply

$$\text{Energy} \times \$0.0098 \times \left( \frac{95\%}{\text{Power Factor}} - 1 \right)$$

*Energy* = the total monthly kWh for the account

*Power Factor* = the lesser of the customer's monthly power factor or 95%

Customers that contract with SMUD for power factor corrections will have the power factor adjustment waived for the portion that is covered under the contract.

The fee for correction per KVAR .....\$0.2588

KVAR = maximum 12 month KVAR in excess of 33% of kW.

## (D) Billing

### PRORATION OF CHARGES

BILLING CIRCUMSTANCE	Service Charge	Facilities Charges & Energy Charges	BASIS OF PRORATION
Less than 27 days or more than 34 days	Yes	Yes	Relationship between the length of the billing period and 30 days.
Winter/Summer crossover	Yes	Yes	Relationship between the length of the billing period and the number of days winter and summer.

Meter reading for service rendered in accordance with this rate will not be combined for billing purposes unless the convenience of SMUD is served thereby.

(End)



# Large General Service Time-Of-Use Rate Schedule GS-TOU1

## I. Applicability

Applicable to single or three phase service, delivered at such nominal voltage as the customer selects from among those which SMUD designates are available at the customer's premises. This schedule is mandatory for all commercial and industrial (C&I) customers whose monthly demand is 1,000 kW or over for three consecutive months during the preceding 12 months. Customers will remain on this rate schedule until their demand falls below 1000 kW for 12 consecutive months. Service under this schedule is subject to meter availability. The demand for any month will be the maximum 15-minute kW delivery during the month.

## II. Firm Service Rate

	Rate Category Voltage Level	Large C&I GUS_L Secondary	Large C&I GUP_L Primary	Large C&I GUT_L 69KV
<b>Winter Season - October 1 through May 31</b>				
<b>Service Charge - per month per meter</b>		\$96.70	\$96.70	\$256.10
<b>Facilities Charge</b> ( <i>per 12 months max kW or installed capacity</i> )		\$3.60	\$3.45	\$2.75
<b>Energy Charge</b>				
On-Peak ¢/kWh		9.64¢	9.17¢	8.83¢
Off-Peak ¢/kWh		7.64¢	7.15¢	6.99¢
<b>Summer Season - June 1 through September 30</b>				
<b>Service Charge - per month per meter</b>		\$96.70	\$96.70	\$256.10
<b>Facilities Charge</b> ( <i>per 12 months max kW or installed capacity</i> )		\$3.60	\$3.45	\$2.75
<b>Energy Charge</b>				
Super-Peak ¢/kWh		15.03¢	12.39¢	12.03¢
On-Peak ¢/kWh		12.01¢	11.29¢	10.57¢
Off-Peak ¢/kWh		9.60¢	8.76¢	8.63¢

**Solar Surcharge is applied to all kWh regardless of season as outlined in Sheet No. 1-SB-1**

## III. Rate Option Menu

### (A) Energy Assistance Program for Non-Profit Agencies

Please see Sheet No. 1-EAPR-1 for details on the Energy Assistance Program.

### (B) Campus Rates

Campus billing is a condition whereby the customer is served from a common address or industrial campus and has several accounts or services entrances on the same contiguous campus. Campus billing provides for either hardwire or post metering combination of these accounts to a single load shape for billing purposes. This option would have the characteristics of avoiding multiple service charges. The following criteria define the conditions under which campus rates would be granted:

1. Contiguous site.
2. Same legal entity buying and consuming the power at the site.
3. No sub-metering on campus to third parties.
4. Special facilities charges applied to recover additional meter/metering expense.
5. Single point of contact at the place of business both for billing and service questions.
6. All accounts served from a common rate and service voltage.
7. Use of parallel systems for shifting load between different rate offerings will be considered a violation of terms of this agreement. SMUD shall have the right to corrective billing on a single rate and full reimbursement of waived service charges.
8. This type of service requires interval metering on each service entrance. Customers at the secondary service level will be required to pay the service charge associated with primary service to account for additional costs to SMUD. A monthly service fee will be charged for the additional costs of multiple site metering.

### (C) Standby Service Option

This option is for general service customers who operate, in whole or in part, customer-owned generator(s) on their premises and where 1) the output connects to SMUD's electrical system, and 2) SMUD must stand ready to provide backup or maintenance service to replace the generator(s).

#### Standby Service Charge (\$/kW of Contract Capacity per month)

Secondary Distribution Voltage .....	\$6.25
Primary Distribution Voltage .....	\$4.95
69 kV Voltage .....	\$2.50

"Contract Capacity" is a fixed kilowatt value determined by the rating of the generator unit. In addition to the standby service

# Large General Service Time-Of-Use Rate Schedule GS-TOU1

charge, SMUD will continue to bill for all applicable charges under this rate schedule. These charges include customer and facility charges, as well as demand and energy charges for SMUD-provided power.

## (D) Economic Development Rate Option

This option is applicable to full service customers with load in excess of 299 kW who create a minimum of 50 new jobs and add load at a new or expanded site. For existing customers, only the additional load will qualify for the discount. Eligibility for this discount is limited to customers with Standard Industrial Classifications (SIC) 2000-3999 Manufacturing, 4800-4899 Communications, 7300-7499 Business Services and 8700-8799 Professional Services or the equivalent new NAICS codes. Qualified customers must agree to be a full service customer for five years. Qualified customers will receive a reduction of the service, demand, facilities and energy components of their bill, based on the table below.

Economic Development Discount				
Year 1	Year 2	Year 3	Year 4	Year 5
5%	3%	1%	0%	0%

## (E) Green Pricing Options

### SMUD Community Solar Option

Customers electing this premium service option will receive an additional charge for monthly energy of no less than 1/2¢ and no greater than 2¢ per kWh. Contributions will be held until sufficient funds are available for construction of a solar roof top system.

### SMUD Renewable Energy Option

Customers electing this premium power service will receive an additional charge for monthly energy of no less than 1/2¢ and no greater than 2¢ per kWh. SMUD may offer up to three premium rate options representing various blends of renewable resources within the 1/2¢ to 2¢ range. The actual prices will be published each November and will be based on the expected above market cost of renewable resources for the upcoming year. Participation will be limited to the amount of resources that SMUD is able to secure below the 2¢ premium limit.

## (F) Implementation of Energy Efficiency Program or Installation of New Solar Photovoltaic Systems

Customers who implement a SMUD-sponsored Energy Efficiency program or who install a SMUD-approved solar/photovoltaic system to offset their on-site energy consumption may request a reset of their 12-month historical demand upon completion of the project.

## (G) Net Metering for Solar Electric, Wind Turbine, and Biomass Generation Facilities

Please see Sheet No. 1-NM-1 for details on the Net Metering option.

## IV. Special Metering Charge

For customers who purchase and install communications hardware and software to transfer energy load data from their meter/recorders to a personal computer, SMUD will charge a monthly service fee to recover maintenance, software support costs and the annual licensing fee.

## V. Conditions

### (A) Type of Electric Service

#### Firm Service

Standard service where SMUD provides a continuous and sufficient supply of electricity.

### (B) Service Voltage Definition

The following defines the three voltage classes available. The rate shall be determined by the voltage level at which service is taken according to the following:

1. Secondary : This is the voltage class if the definition of "primary" and "69 kV" do not apply to a customer's service.
2. Primary : This is the voltage class if a customer elects to accept service at a voltage level of 12 kV or 21 kV that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 300 kW.
3. 69 kV : This is the voltage class if a customer elects to accept service at a voltage level of 69 kV or higher that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 500 kW.

### (C) Power Factor Adjustment



# Large General Service Time-Of-Use Rate Schedule GS-TOU1

Accounts with demands of 20 kW or greater may be subject to a power factor adjustment. SMUD, at its option, may place VAR metering equipment to record reactive power conditions. Effective January 1, 1998, when a customer's monthly power factor falls below 95% leading or lagging, the following billing adjustment will apply:

$$\text{Energy} \times \$0.0098 \times \left( \frac{95\%}{\text{Power Factor}} - 1 \right)$$

*Energy* = the total monthly kWh for the account • *Power Factor* = the lesser of the customer's monthly power factor or 95%

Customers that contract with SMUD for power factor corrections will have the power factor adjustment waived for the portion that is covered under the contract.

The fee for correction per KVAR .....\$0.2588

KVAR = maximum 12 month KVAR in excess of 33% of kW.

## (D) Time-of-Use Billing Periods

Super-peak hours include the following:

SUMMER SEASON (ONLY) – JUNE 1 through SEPTEMBER 30

Weekdays: Between 2:00 p.m. and 8:00 p.m.

On-peak hours include the following:

WINTER SEASON - OCTOBER 1 through MAY 31

Weekdays: Between 12:00 noon and 10:00 P.M.

SUMMER SEASON - JUNE 1 through SEPTEMBER 30

Weekdays: Between 12:00 noon and 2:00 p.m. and between 8:00 p.m. and 10:00 p.m.

Off-peak hours include the following:

ALL SEASON – JANUARY 1 through DECEMBER 31

All day on Saturdays, Sundays and the following holidays:

New Year's Day	January 1
Martin Luther King Jr.'s Birthday	3rd Mon. in Jan.
Lincoln's Birthday	February 12
Presidents Day	3rd Mon. in Feb.
Memorial Day	Last Mon. in May
Independence Day	July 4
Labor Day	1st Mon. in Sep.
Columbus Day	2nd Mon. in Oct.
Veterans Day	November 11
Thanksgiving Day	4th Thu. in Nov.
Christmas Day	December 25

and all other hours not defined as super-peak or on-peak.

## (E) Billing

### PRORATION OF CHARGES

BILLING CIRCUMSTANCE	Service Charge	Facilities Charge	BASIS OF PRORATION
Less than 27 days or more than 34 days	Yes	Yes	Relationship between the length of the billing period and 30 days.
Winter/Summer crossover	Yes	Yes	Relationship between the length of the billing period and the number of days winter and summer.

Meter reading for service rendered in accordance with this rate will not be combined for billing purposes unless the convenience of SMUD is served thereby. (End)



# Medium General Service Time-Of-Use Rate Schedule GS-TOU2

## I. Applicability

Applicable to single or three phase service, delivered at such nominal voltage as the customer selects from among those which SMUD designates are available at the customer's premises. This schedule is mandatory for all commercial and industrial (C&I) customers whose monthly demand is 500 to 999 kW for three consecutive months. Customers will remain on this rate schedule until their demand falls below 500 kW for 12 consecutive months. The demand for any month will be the maximum 15-minute kW delivery during the month. Service under this schedule is subject to meter availability.

## II. Firm Service Rate

	Rate Category Voltage Level	Medium GUS_M Secondary	Medium GUP_M Primary	Medium GUT_M 69kV
<b>Winter Season - October 1 Through May 31</b>				
<b>Service Charge - per month per meter</b>		\$96.70	\$96.70	\$256.10
<b>Facilities Charge</b> ( <i>per 12 months max kW or installed capacity</i> )		\$2.55	\$2.25	\$1.85
<b>Energy Charge</b>				
On-Peak ¢/kWh		9.19¢	8.69¢	8.37¢
Off-Peak ¢/kWh		7.28¢	6.89¢	6.75¢
<b>Summer Season - June 1 Through September 30</b>				
<b>Service Charge - Per month per meter</b>		\$96.70	\$96.70	\$256.10
<b>Facilities Charge</b> ( <i>per 12 months max kW or installed capacity</i> )		\$2.55	\$2.25	\$1.85
<b>Demand Charge</b> ( <i>\$/monthly super peak max kW</i> )		\$6.25	\$5.75	\$0.00
<b>Energy Charge</b>				
Super-Peak ¢/kWh		17.44¢	16.60¢	16.12¢
On-Peak ¢/kWh		12.01¢	11.58¢	10.85¢
Off-Peak ¢/kWh		9.24¢	8.80¢	8.66¢

**Solar Surcharge is applied to all kWh regardless of season as outlined in Sheet No. 1-SB-1**

## III. Rate Option Menu

### (A) Energy Assistance Program for Non-Profit Agencies

Please see Sheet No. 1-EAPR-1 for details on the Energy Assistance Program.

### (B) Campus Rates

Campus billing is a condition whereby the customer is served from a common address or industrial campus and has several accounts or services entrances on the same contiguous campus. Campus billing provides for either hardwire or post metering combination of these accounts to a single load shape for billing purposes. This option would have the characteristics of avoiding multiple service charges. The following criteria define the conditions under which campus rates would be granted:

1. Contiguous site.
2. Same legal entity buying and consuming the power at the site.
3. No sub-metering on campus to third parties.
4. Special facilities charges applied to recover additional meter/metering expense.
5. Single point of contact at the place of business both for billing and service questions.
6. All accounts served from a common rate and service voltage.
7. Use of parallel systems for shifting load between different rate offerings will be considered a violation of terms of this agreement. SMUD shall have the right to corrective billing on a single rate and full reimbursement of waived service charges.
8. This type of service requires interval metering on each service entrance. Customers at the secondary service level will be required to pay the service charge associated with primary service to account for additional costs to SMUD. A monthly service fee will be charged for the additional costs of multiple site metering.

### (C) Standby Service Option

This option is for general service customers who operate, in whole or in part, customer-owned generator(s) on their premises and where 1) the output connects to SMUD's electrical system, and 2) SMUD must stand ready to provide backup or maintenance service to replace the generator(s).

<b>Standby Service Charge</b> <b>(\$/kW of Contract Capacity per month)</b>	<b>Secondary</b>	<b>Primary</b>	<b>69kV</b>
	\$6.25	\$4.95	\$2.50

# Medium General Service Time-Of-Use Rate Schedule GS-TOU2

“Contract Capacity” is a fixed kilowatt value determined by the rating of the generator unit. In addition to the standby service charge, SMUD will continue to bill for all applicable charges under this rate schedule. These charges include customer and facility charges, as well as demand and energy charges for SMUD-provided power.

## (D) Economic Development Rate Option

This option is applicable to full service customers with load in excess of 299 kW who create a minimum of 50 new jobs and add load at a new or expanded site. For existing customers, only the additional load will qualify for the discount. Eligibility for this discount is limited to customers with Standard Industrial Classifications (SIC) 2000-3999 Manufacturing, 4800-4899 Communications, 7300-7499 Business Services and 8700-8799 Professional Services or the equivalent new NAICS codes. Qualified customers must agree to be a full service customer for five years. Qualified customers will receive a reduction of the service, demand, facilities and energy components of their bill, based on the table below.

Economic Development Discount				
Year 1	Year 2	Year 3	Year 4	Year 5
5%	3%	1%	0%	0%

## (E) Green Pricing Options

### SMUD Community Solar Option

Customers electing this premium service option will receive an additional charge for monthly energy of no less than 1¢ and no greater than 2¢ per kWh. Contributions will be held until sufficient funds are available for construction of a solar roof top system.

### SMUD Renewable Energy Option

Customers electing this premium power service will receive an additional charge for monthly energy of no less than 1/2¢ and no greater than 2¢ per kWh. SMUD may offer up to three premium rate options representing various blends of renewable resources within the 1/2¢ to 2¢ range. The actual prices will be published each November and will be based on the expected above market cost of renewable resources for the upcoming year. Participation will be limited to the amount of resources that SMUD is able to secure below the 2¢ premium limit.

## (F) Implementation of Energy Efficiency Program or Installation of New Solar Photovoltaic Systems

Customers who implement a SMUD-sponsored Energy Efficiency program or who install a SMUD-approved solar/photovoltaic system to offset their on-site energy consumption may request a reset of their 12-month historical demand upon completion of the project.

## (G) Net Metering for Solar Electric, Wind Turbine, and Biomass Generation Facilities

Please see Sheet No. 1-NM-1 for details on the Net Metering option.

## IV. Special Metering Charge

For customers who purchase and install communications hardware and software to transfer energy load data from their meter/recorders to a personal computer, SMUD will charge a monthly service fee to recover maintenance, software support costs and the annual licensing fee.

## V. Conditions

### (A) Type of Electric Service

#### Firm Service

Standard service where SMUD provides a continuous and sufficient supply of electricity.

### (B) Service Voltage Definition

The following defines the three voltage classes available. The rate shall be determined by the voltage level at which service is taken according to the following:

1. Secondary - This is the voltage class if the definition of “primary” and “69 kV” do not apply to a customer’s service.
2. Primary - This is the voltage class if a customer elects to accept service at a voltage level of 12 kV or 21 kV that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 300 kW.
3. 69 kV - This is the voltage class if a customer elects to accept service at a voltage level of 69 kV or higher that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 500 kW.

### (C) Power Factor Adjustment

# Medium General Service Time-Of-Use Rate Schedule GS-TOU2

Accounts with demands of 20 kW or greater may be subject to a power factor adjustment. SMUD, at its option, may place VAR metering equipment to record reactive power conditions. Effective January 1, 1998, when a customer's monthly power factor falls below 95% leading or lagging, the following billing adjustment will apply:

$$\text{Energy} \times \$0.0098 \times \left( \frac{95\%}{\text{Power Factor}} - 1 \right)$$

*Energy* = the total monthly kWh for the account

*Power Factor* = the lesser of the customer's monthly power factor or 95%

Customers that contract with SMUD for power factor corrections will have the power factor adjustment waived for the portion that is covered under the contract.

The fee for correction per KVAR .....\$0.2588

KVAR = maximum 12 month KVAR in excess of 33% of kW.

## (D) Time-of-Use Billing Periods

Super-peak hours include the following:

SUMMER SEASON (ONLY) - JUNE 1 through SEPTEMBER 30

Weekdays: Between 2:00 pm. and 8:00 p.m.

On-peak hours include the following:

SUMMER SEASON - JUNE 1 through SEPTEMBER 30

Weekdays: Between 12:00 noon and 2:00 p.m. and between 8:00 p.m. and 10:00 p.m.

WINTER SEASON - OCTOBER 1 through MAY 31

Weekdays: Between 12:00 noon and 10:00 p.m.

Off-peak hours include the following:

ALL SEASON - JANUARY 1 through DECEMBER 31

All day on Saturdays, Sundays and the following holidays:

New Year's Day	January 1
Martin Luther King Jr.'s Birthday	3rd Mon. in Jan.
Lincoln's Birthday	February 12
Presidents Day	3rd Mon. in Feb.
Memorial Day	Last Mon. in May
Independence Day	July 4
Labor Day	1st Mon. in Sep.
Columbus Day	2nd Mon. in Oct.
Veterans Day	November 11
Thanksgiving Day	4th Thu. in Nov.
Christmas Day	December 25

and all other hours not defined as super-peak or peak

## (E) Billing

### PRORATION OF CHARGES

BILLING CIRCUMSTANCE	Service Charge	Facilities Charge	BASIS OF PRORATION
Less than 27 days or more than 34 days	Yes	Yes	Relationship between the length of billing period and 30 days.
Winter/Summer crossover	Yes	Yes	Relationship between the length of billing period and the number of days of winter and summer.

Meter reading for service rendered in accordance with this rate will not be combined for billing purposes unless the convenience of SMUD is served thereby. (End)



# Time-Of-Use Commercial Rate Schedule GS-TOU3

## I. Applicability

Applicable to single or three phase service, delivered at such nominal voltage as the customer selects from among those which SMUD designates are available at the customer's premises. This schedule is mandatory for all commercial and industrial (C&I) customers whose monthly demand is 300-499 kW for three consecutive months and for all customers previously served at the primary level on Rate Schedule GS. Customers taking service at the secondary level will remain on this rate schedule until their demand falls below 300 kW for 12 consecutive months. This schedule is optional for customers currently billed on Rate Schedule GS and taking service at the secondary level with historical billing demand less than 300 kW.

## II. Firm Service Rate

Rate Category	Small GUS_S Secondary	Small GUP_S Primary
<b>Winter Season - October 1 through May 31</b>		
Service Charge - per month per meter	\$96.70	\$96.70
Facilities Charge (per 12 months max kW or installed capacity)	\$3.40	\$3.05
Energy Charge		
On-peak ¢/kWh	9.33¢	8.81¢
Off-peak ¢/kWh	7.40¢	7.00¢
<b>Summer Season - June 1 through September 30</b>		
Service Charge - per month per meter	\$96.70	\$96.70
Facilities Charge (per 12 months max kW or installed capacity)	\$3.40	\$3.05
Demand Charge (\$/monthly super peak max kW)	\$6.85	\$6.25
Energy Charge		
Super-peak ¢/kWh	17.96¢	17.09¢
On-peak ¢/kWh	12.27¢	11.82¢
Off-peak ¢/kWh	9.75¢	9.28¢

Solar Surcharge is applied to all kWh regardless of season as outlined in Sheet No. 1-SB-1

## III. Rate Option Menu

### (A) Energy Assistance Program for Non-Profit Agencies

Please see Sheet No. 1-EAPR-1 for details on the Energy Assistance Program.

### (B) Campus Rates

Campus billing is a condition whereby the customer is served from a common address or industrial campus and has several accounts or services entrances on the same contiguous campus. Campus billing provides for either hardwire or post metering combination of these accounts to a single load shape for billing purposes. This option would have the characteristics of avoiding multiple service charges. The following criteria define the conditions under which campus rates would be granted:

1. Contiguous site.
2. Same legal entity buying and consuming the power at the site.
3. No sub-metering on campus to third parties.
4. Special facilities charges applied to recover additional meter/metering expense.
5. Single point of contact at the place of business both for billing and service questions.
6. All accounts served from a common rate and service voltage.
7. Use of parallel systems for shifting load between different rate offerings will be considered a violation of terms of this agreement. SMUD shall have the right to corrective billing on a single rate and full reimbursement of waived service charges.
8. This type of service requires interval metering on each service entrance. Customers at the secondary service level will be required to pay the service charge associated with primary service to account for additional costs to SMUD. A monthly service fee will be charged for the additional costs of multiple site metering.

### (C) Standby Service Option

This option is for general service customers who operate, in whole or in part, customer-owned generator(s) on their premises and where 1) the output connects to SMUD's electrical system, and 2) SMUD must stand ready to provide backup or maintenance service to replace the generator(s).

#### Standby Service Charge (\$/kW of Contract Capacity per month)

Secondary Distribution Voltage.....	\$6.25
Primary Distribution Voltage.....	\$4.95
69 kV Voltage.....	\$2.50

## Time-Of-Use Commercial Rate Schedule GS-TOU3

“Contract Capacity” is a fixed kilowatt value determined by the rating of the generator unit. In addition to the standby service charge, SMUD will continue to bill for all applicable charges under this rate schedule. These charges include service and facility charges, as well as demand and energy charges for SMUD-provided power.

### (D) Economic Development Rate Option

This option is applicable to full service customers with load in excess of 299 kW who create a minimum of 50 new jobs and add load at a new or expanded site. For existing customers, only the additional load will qualify for the discount. Eligibility for this discount is limited to customers with Standard Industrial Classifications (SIC) 2000-3999 Manufacturing, 4800-4899 Communications, 7300-7499 Business Services and 8700-8799 Professional Services or the equivalent new NAICS codes. Qualified customers must agree to be a full service customer for five years. Qualified customers will receive a reduction of the service, demand, facilities and energy components of their bill, based on the table below.

Economic Development Discount				
Year 1	Year 2	Year 3	Year 4	Year 5
5%	3%	1%	0%	0%

### (E) Green Pricing Options

#### SMUD Community Solar Option

Customers electing this premium service option will receive an additional charge for monthly energy of no less than 1/2¢ and no greater than 2¢ per kWh. Contributions will be held until sufficient funds are available for construction of a solar roof top system.

#### SMUD Renewable Energy Option

Customers electing this premium power service will receive an additional charge for monthly energy of no less than 1/2¢ and no greater than 2¢ per kWh. SMUD may offer up to three premium rate options representing various blends of renewable resources within the 1/2¢ to 2¢ range. The actual prices will be published each November and will be based on the expected above market cost of renewable resources for the upcoming year. Participation will be limited to the amount of resources that SMUD is able to secure below the 2¢ premium limit.

### (F) Implementation of Energy Efficiency Program or Installation of New Solar Photovoltaic Systems

Customers who implement a SMUD-sponsored Energy Efficiency program or who install a SMUD-approved solar/photovoltaic system to offset their on-site energy consumption may request a reset of their 12-month historical demand upon completion of the project.

### (G) Net Metering for Solar Electric, Wind Turbine, and Biomass Generation Facilities

Please see Sheet No. 1-NM-1 for details on the Net Metering option.

## IV. Special Metering Charge

For customers who purchase and install communications hardware and software to transfer energy load data from their meter/recorder to a personal computer, SMUD will charge a monthly service fee to recover maintenance, software support costs and the annual licensing fee.

## V. Conditions

### (A) Type of Electric Service

#### Firm Service

Standard service where SMUD provides a continuous and sufficient supply of electricity.

### (B) Service Voltage Definition

The following defines the three voltage classes available. The rate shall be determined by the voltage level at which service is taken according to the following:

1. Secondary: This is the voltage class if the definition of “primary” and “69 kV” do not apply to a customer’s service.
2. Primary: This is the voltage class if a customer elects to accept service at a voltage level of 12 kV or 21 kV that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 300 kW.
3. 69 kV: This is the voltage class if a customer elects to accept service at a voltage level of 69 kV or higher that is available in the area and SMUD approves such arrangements for a customer whose monthly demand exceeds 500 kW.



# Time-Of-Use Commercial Rate Schedule GS-TOU3

## (C) Power Factor Adjustment

Accounts with demands of 20 kW or greater may be subject to a power factor adjustment. SMUD, at its option, may place VAR metering equipment to record reactive power conditions. Effective January 1, 1998, when a customer's monthly power factor falls below 95% leading or lagging, the following billing adjustment will apply:

$$\text{Energy} \times \$0.0098 \times \left( \frac{95\%}{\text{Power Factor}} - 1 \right)$$

*Energy* = the total monthly kWh for the account

*Power Factor* = the lesser of the customer's monthly power factor or 95%

Customers that contract with SMUD for power factor corrections will have the power factor adjustment waived for the portion that is covered under the contract.

The fee for correction per KVAR ..... \$0.2588

KVAR = maximum 12 month KVAR in excess of 33% of kW.

## (D) Time-of-Use Billing Periods

Super-peak hours include the following:

SUMMER SEASON (ONLY) – JUNE 1 through SEPTEMBER 30

Weekdays: Between 2:00 p.m. and 8:00 p.m.

On-peak hours include the following:

WINTER SEASON - OCTOBER 1 through MAY 31

Weekdays: Between 12:00 noon and 10:00 P.M.

SUMMER SEASON - JUNE 1 through SEPTEMBER 30

Weekdays: Between 12:00 noon and 2:00 p.m. and between 8:00 p.m. and 10:00 p.m.

Off-peak hours include the following:

ALL SEASON – JANUARY 1 through DECEMBER 31

All day on Saturdays, Sundays and the following holidays:

New Year's Day	January 1
Martin Luther King Jr.'s Birthday	3rd Mon. in Jan.
Lincoln's Birthday	February 12
Presidents Day	3rd Mon. in Feb.
Memorial Day	Last Mon. in May
Independence Day	July 4
Labor Day	1st Mon. in Sep.
Columbus Day	2nd Mon. in Oct.
Veterans Day	November 11
Thanksgiving Day	4th Thu. in Nov.
Christmas Day	December 25

and all other hours not defined as super-peak or on-peak

## (E) Billing

### PRORATION OF CHARGES

BILLING CIRCUMSTANCE	Service Charge	Demand/Facilities Charge	BASIS OF PRORATION
Less than 27 days or more than 34 days	Yes	Yes	Relationship between the length of the billing period and 30 days.
Winter/Summer season overlap	Yes	Yes	Relationship between the length of the billing period and the number of days winter & summer.

Meter reading for service rendered in accordance with this rate will not be combined for billing purposes unless the convenience of SMUD is served thereby.

(End)



# Net Metering for Qualifying Facilities Solar Electric, Wind Turbine and Biomass

## I. Applicability

The net metering option applies to residential, commercial/industrial, and agricultural customers who have a solar or wind electrical generation facility, a hybrid system of both, or a biomass facility with a capacity of not more than 1000 kilowatts. The facility must be located on the customer's premises, operate in parallel with SMUD's transmission and distribution facilities, and must be intended primarily to offset part or all of the customer's own electrical requirements. Application for this option is on a first-come, first-served basis, not to exceed the cap adopted by SMUD. The customer must meet all requirements of Rule 21.

## II. Metering

### (A) Residential and Small Commercial $\leq 20$ kW; Agricultural Customers $\leq 30$ kW

SMUD will pay for and install, at no cost to the customer, a single meter capable of registering the flow of electricity in both directions, or an equivalent means of metering. For SMUD-supplied photovoltaic (PV) systems, an additional meter for PV generation will be supplied as part of the system package.

### (B) Large Commercial $> 20$ kW; Agricultural Customers $> 30$ kW

SMUD will pay for and install a single meter, or an equivalent means of metering, capable of registering the flow of electricity in both directions. The customer may be required to pay the cost differential between standard metering and bi-directional metering. For SMUD-supplied photovoltaic (PV) systems, an additional meter for PV generation will be supplied as part of the system package.

## III. Standby Charges

Customers who qualify for Net Metering are exempt from standby charges on that portion of their load.

## IV. Annualized Payment/Settlement Method

All customers who qualify for the net metering option shall have a twelve (12) month settlement period that begins on the effective day of the customer's net metering agreement or upon SMUD's receipt of the customer's net surplus generation election form. If, during any regular monthly billing cycle, the energy supplied by SMUD is greater than the energy supplied to SMUD by the customer's system, the customer will be billed as prescribed by the applicable rate schedule, for the net kilowatt hours (kWh) supplied by SMUD, and other applicable charges. If, in any regular billing month, the energy supplied by SMUD is less than the energy supplied to SMUD by the customer's system, the customer will receive retail-valued energy credits for the excess electricity supplied to SMUD. The customer remains responsible for the service charge and any subscribed program charges. At the end of the customer's twelve (12) month settlement period, any unused accumulated monthly retail energy credits will be zeroed out.

### (A) Annual Net Surplus Generation

At the end of a customer's twelve (12) month settlement period, SMUD shall calculate the amount of net surplus generation over the twelve (12) month period. If the customer has net surplus generation, SMUD will, at the customer's election, either a) provide a monetary credit for the net surplus generation to be paid out to the customer or b) roll over the net annual surplus kWh into the next twelve (12) month period. Monetary value for each net surplus generated kWh shall be calculated based on the following calculation:

The dollar per kWh cost using most recently published SMUD budget using the following computation: SMUD's net commodity budget divided by the forecasted annual energy sales.

For each kWh purchased under this annual net surplus generation method, the ownership of the associated renewable energy credit will transfer from the customer to SMUD. The net surplus monetary value shall be calculated annually. This net surplus monetary value will remain in effect for the duration of the fiscal year used for the calculation of the customer's net surplus generation. The value shall be published on SMUD's website by December 20 prior to the year the value is in effect.

## **Net Metering for Qualifying Facilities Solar Electric, Wind Turbine and Biomass**

### **(B) Opt-Out of Annual Net Surplus Generation**

Customers may elect to opt out of receiving compensation or monetary credit for their net surplus generation over their twelve (12) month settlement period. Customers who elect to opt out will not receive any form of compensation nor credit for net surplus generation delivered to SMUD. Such customers will be allowed to retain any associated renewable energy credits produced by their net surplus generation.

*(End)*

# Residential Service Rate Schedule R

## I. Applicability

This schedule is applicable to single and three-phase residential service in single-family residences and in flats and apartments individually metered by SMUD; to single and three-phase general farm service where the residence is supplied through the same meter or to additional meters on a farm where the energy consumed is only for domestic purposes; to single and three-phase residential service supplied to a multifamily accommodation through a master-meter or to a mobile home park through a master-meter and sub-metered to all individual mobile home or single-family units.

## II. Rates

### WINTER SEASON - NOVEMBER 1 through APRIL 30

#### Standard Rate (Rate Categories RSE, RWE, RSG, RWG)

Service charge.....\$7.20

#### Energy Charge:

Tier I Baseline Quantities per month ..... 9.67¢ per kWh

Tier II Quantities per month..... 17.94¢ per kWh

#### Electric Space Heat Rate \*\* (CLOSED) (Rate Categories RSC, RWC)

Service charge per month or portion thereof.....\$7.20

#### Energy Charge:

Tier I Baseline Quantities per month ..... 7.57¢ per kWh

Tier II Quantities per month..... 14.43¢ per kWh

### SUMMER SEASON - MAY 1 through OCTOBER 31

#### Standard Rate (Rate Categories RSE, RWE, RSC, RWC, RSG, RWG)

Service charge.....\$7.20

#### Energy Charge:

Tier I Baseline Quantities per month ..... 10.45¢ per kWh

Tier II Quantities per month..... 18.59¢ per kWh

Solar Surcharge is applied to all kWh regardless of season as outlined in Sheet No. 1-SB-1

### WINTER TIER QUANTITIES - NOVEMBER 1 THROUGH APRIL 30

Rate Category	RSE, RSC	RWE, RWC	RSG	RWG
Tier I kWh per month	0-1120	0-1420	0-620	0-920
Tier II kWh per month	>1120	>1420	>620	>920

### SUMMER TIER QUANTITIES - MAY 1 THROUGH OCTOBER 31

	RSE, RSC, RSG	RWE, RWC, RWG
Tier I kWh per month	0-700	0-1000
Tier II kWh per month	>700	>1000

\*\*The Winter Season (CLOSED) Electric Space Heat Rate is no longer available to new installations of electric space heat equipment, effective May 1, 1996. Any new occupant to a current premise with (CLOSED) Rate Categories RSC, RTC, or RWC will be placed on the Standard Rate (Rate Categories RSE, RWE) or on the Time-of-Use (Rate Category RTE) if applicable, upon application for service. New occupants and new customers installing electric space heat equipment (Rate Categories RSE, RWE) shall be entitled to the Tier 1 Baseline Quantities for Electric Space Heat and billed the Standard Rate.

# Residential Service Rate Schedule R

## III. Optional Medical Equipment Discount and Energy Assistance Programs

### Medical Equipment Discount Program

Please see Sheet No. 1-MED-1 for details on the Medical Equipment Discount Program.

### Energy Assistance Program

Please see Sheet No. 1-EAPR-1 for details on the Energy Assistance Program.

### Medical Equipment Discount and Energy Assistance Program

Please see Sheet No. 1-MED-1 for details on the Medical Equipment Discount and Energy Assistance Program.

## IV. Optional Time-of-Use Rates

### Option 1 (Rate Categories RTE, RTC, RTG)

#### WINTER SEASON - NOVEMBER 1 through APRIL 30

Service charge .....	\$7.20
On-Peak ¢/kWh .....	10.80¢
Off-Peak ¢/kWh .....	9.97¢

#### SUMMER SEASON - MAY 1 through OCTOBER 31

Service charge .....	\$7.20
On-Peak ¢/kWh .....	24.01¢
Off-Peak ¢/kWh .....	11.11¢

**Solar Surcharge is applied to all kWh regardless of season as outlined in Sheet No. 1-SB-1**

### Trial Time-of-Use Billing

Residential customers shall be entitled to a 12-month trial period for option 1 in which the customer shall receive a credit (after 12 months of billing on the option at Time-of-Use Rates) for the accumulated difference, if applicable, between the Standard Rate and the Optional Time-of-Use, after which either the Standard Rate or the Optional Time-of-Use Rate must be selected. If the Optional Time-of-Use Rate is selected, customers subsequently requesting a transfer from the Optional Time-of-Use Rate to the Standard Rate may not return to the Optional Time-of-Use Rate for a 12-month period.

### Option 2 (Rate Categories RTE5, RTC5, RTG5)

#### WINTER SEASON - OCTOBER 1 through MAY 31

Service Charge .....	\$11.40
On-Peak ¢/kWh .....	10.97¢
Off-Peak ¢kWh.....	10.07¢

#### SUMMER SEASON - JUNE 1 through SEPTEMBER 30

Service Charge .....	\$11.40
Super-Peak ¢/kWh.....	24.24¢
On-Peak ¢/kWh .....	16.14¢
Off-Peak ¢/kWh .....	9.97¢

**Solar Surcharge is applied to all kWh regardless of season as outlined in Sheet No. 1-SB-1**

## V. Rate Option Menu

### (A) Residential Thermal Energy Storage Option (Rate Category, RTT) (CLOSED)

Residential customers who are equipped with a Residential Thermal Energy Storage (RTES) system *or* who may qualify by meeting the load criteria established for RTES including the lockout of space-conditioning compressors during the on-peak period, and who are billed on the Optional Time-of-Use Rate (Option 1), shall be entitled to a credit per kWh off the

winter off-peak energy charge of .....	2.43¢
summer on-peak energy charge of .....	5.85¢
summer off-peak energy charge of .....	2.71¢

Rate Category RTT will no longer be available to new occupants as well as new installations of RTES systems, or other qualifying equipment effective June 1, 1997. At the time of application for service, new occupants of a current premise with (CLOSED) Rate Category RTT will be placed on the standard time-of-use rate (Rate Category RTE) and will be informed of other rate options available to them.

# Residential Service Rate Schedule R

## (B) Standby Service Option

This option is for residential customers who operate, in whole or in part, privately-owned generator(s) with a contract capacity (combined nameplate rating) less than 100 kW on their premises, and are connected to SMUD's electrical system requiring SMUD to standby ready to provide backup or maintenance service to replace the generator(s). Charges for Standby Service are as follows:

ALL MONTHS - (January 1 Through December 31)

Standby Charge (\$ per kW):

Based on contract capacity per month.....\$6.25

Energy Charges:

All energy provided to the customer by SMUD will be billed at the applicable energy charges under the Standard Rate or Optional Time-of-Use Rate.

## (C) Plug-in Electric Vehicle (PEV) Option

This option is for residential customers who own licensed passenger electric vehicles and/or passenger battery electric and plug-in hybrid electric vehicles, and take service for the **vehicle charging** under the optional Time-of-Use-Rate (Option1) upon proof of vehicle registration. The term PEV is meant to be inclusive of both battery , plug-in, and plug-in hybrid electric vehicles.

This option requires installation of a time-of-use meter on the charging location and will be billed under the Optional Time-of-Use Rate (Option 1) with a credit of 2.43¢ per kWh off the winter off-peak energy charge and a credit of 2.71¢ per kWh off the summer off-peak energy charge. The service charge will be waived. The TOU meter will be a submeter to the premise's main meter unless the customer, at his own expense, elects to have installed a separate panel and meter. When submetered, the Residential Time-of-Use Electric Vehicle (Rate Category RTEV) rate is not available to customers whose premise load is billed on TOU Option 2. (

## (D) Residential PV Pioneer Green Fee

This option is for residential customers who participate in SMUD's "PV Pioneer Project." Participation in the "PV Pioneer Project" shall be at the sole discretion of SMUD.

Green Fee per month.....\$4.00

## (E) Net Metering for Solar Electric, Wind Turbine, and Biomass Generation Facilities

Please see Sheet No. 1-NM-1 for details on the Net Metering option.

## (F) Residential Three-phase Service Option

This option is applicable to customers in areas where three-phase service is available. SMUD shall charge a monthly service fee of \$38.10 for Special Facilities to cover the additional costs for providing this service.

## (G) Green Pricing Options

### 1. SMUD Community Solar Option

Customers electing this premium service option will receive an additional monthly energy charge of no less than 1 cent and no greater than 2 cents per kWh. Contributions will be held until sufficient funds are available for construction of a solar roof top system.

### 2. SMUD Renewable Energy Option

Customers electing this premium power service will receive an additional monthly energy charge of no less than 1/2 cent and no greater than 2 cents per kWh. SMUD may offer up to three premium rate options representing various blends of renewable resources within the 1/2 cent to 2 cent range. The actual prices will be published each November and will be based on the expected above market cost of renewable resources for the upcoming year. Participation will be limited to the amount of resources that SMUD is able to secure below the 2 cent premium limit.

### 3. Flat Fee Options:

Customers may opt to support SMUD renewable energy purchases through one of the following monthly fees:

Green Fee flat charge per month 100% option.....\$6.00

Green Fee flat charge per month 50% option.....\$3.00

## VI. Special Metering Charge

SMUD will charge a monthly service fee for customers who purchase and install communications hardware to transfer energy load data from their meter/recorder to a personal computer. The fee covers maintenance, software support and the annual licensing fee.

# Residential Service Rate Schedule R

## VII. Conditions

### (A) Electric Space Heat

An additional kilowatt tier allowance during the winter months is applicable to residential customers with electric space heating systems meeting the following criteria:

1. No domestic space heat equipment other than electric is installed at the metered premise; **and**
2. The electric space heating system is one of the following:
  - An electric space heating system that qualified under the Closed Electric Heat rate before May 1, 1996, **or**
  - A heat pump, including any unit with electric resistance backup, **or**
  - An electric resistance heating system that was installed prior to September 1, 1980, **or**
  - An electric resistance heating system is used to supplement a geo-thermal, solar or other renewable fuel heating system.

Non-renewable sources of space heat systems that do **not** qualify for the residential electric space heat winter tier allowance include:

- Fossil fuels (such as natural gas, propane, gasoline and oil); Wood and pelletized fuels.

### (B) Domestic Well

Tier Quantities for domestic wells are applicable to residential customers who own and operate a well that is their sole source of domestic water, and whereby the well is billed on the residential rates.

### (C) Master-Metered Multifamily Accommodation and Mobile Home Park Billing (Rate Category RMHP)

The master-metered customer's energy consumption will be billed under the Tier Quantities using the ratio of the number of occupied single-family accommodations which are Electric or Non-Electric Space Heat to the total number of occupied single-family accommodations. The billing calculation will include applicable discounts to the Tier 1 baseline and service charges for qualifying energy assistance and life support program participants. It is the responsibility of the customer to advise SMUD within 15 days following any change in the number of occupied single-family accommodations wired for electric service and/or any change in the number of qualifying life support and/or energy assistance program participants, and/or new occupants of the existing premises with Rate Categories RSC or RWC.

### (D) Time-of-Use Billing Periods

The following defines the time periods for the optional time-of-use rates:

- a. Option 1 (Rate Categories RTE, RTC, RTG, RTT)

On-peak hours include the following:

WINTER SEASON - NOVEMBER 1 through APRIL 30  
Weekdays between 7:00 a.m. and 10:00 a.m., and 5:00 p.m. and 8:00 p.m.  
SUMMER SEASON - MAY 1 through OCTOBER 31  
Weekdays between 2:00 p.m. and 8:00 p.m.

Off-peak hours include the following:

ALL SEASONS - JANUARY 1 through DECEMBER 31

All day on Saturdays, Sundays and the following holidays:

New Year's Day	January 1
Martin Luther King Jr.'s Birthday	3rd Mon. in Jan.
Lincoln's Birthday	February 12
Presidents Day	3rd Mon. in Feb.
Memorial Day	Last Mon. in May
Independence Day	July 4
Labor Day	1st Mon. in Sep.
Columbus Day	2nd Mon. in Oct.
Veterans Day	November 11
Thanksgiving Day	4th Thu. in Nov.
Christmas Day	December 25

All other hours not defined as super-peak or on-peak.



## Residential Service Rate Schedule R

b. Option 2 (Rate Categories RTE5, RTC5, RTG5)

Super-peak hours include the following:

SUMMER SEASON (ONLY) - JUNE 1 through SEPTEMBER 30

Weekdays: Between 2:00 p.m. and 8:00 p.m.

On-peak hours include the following:

WINTER SEASON - OCTOBER 1 through MAY 31

Weekdays: Between 12:00 noon and 10:00 p.m.

SUMMER SEASON - JUNE 1 through SEPTEMBER 30

Weekdays: Between 12:00 noon and 2:00 p.m. and between 8:00 p.m. and 10:00 p.m.

Off-peak hours include the following:

ALL SEASONS - JANUARY 1 through DECEMBER 31

All day on Saturdays, Sundays and the following holidays:

New Year's Day	January 1
Martin Luther King Jr.'s Birthday	3rd Mon. in Jan.
Lincoln's Birthday	February 12
Presidents Day	3rd Mon. in Feb.
Memorial Day	Last Mon. in May
Independence Day	July 4
Labor Day	1st Mon. in Sep.
Columbus Day	2nd Mon. in Oct.
Veterans Day	November 11
Thanksgiving Day	4th Thu. in Nov.
Christmas Day	December 25

and all other hours not defined as super-peak or on-peak.

**(E) Billing**

PRORATION OF CHARGES

BILLING CIRCUMSTANCE	Customer Charge	Energy Tiers/ Discounts	BASIS OF PRORATION
Less than 27 days or More than 34 days	No	Yes	Relationship between the length of the billing period and 30 days.
Winter/summer season overlap	No	Yes	Relationship between the length of the billing Period & the number of days winter and summer.

(End)



# Street Lighting Service Rate Schedule SLS

**Customer-owned and maintained — Rate Category SL\_COM**  
**Customer-owned and maintained, metered — Rate Category SL\_COM\_M**  
**Customer-owned, District-maintained — Rate Category SL\_CODM**  
**District-owned and maintained — Rate Category SL\_DOM**

## I. Applicability

To outdoor lighting service facilities for:

1. Streets, highways, and bridges
2. Public parks
3. Elementary schools, secondary schools, and colleges

## II. Character of Service

Alternating current; frequency of approximately 60 hertz; single phase; at voltages specified by SMUD. Lamps shall be controlled to burn from dusk to dawn each night so as to give approximately 4,000 hours of lighting service annually.

## III. Billing

Billing periods for nonstandard lengths will be billed as follows:

1. Service connected for 15 or more days during a billing period will be billed for a full month's service.
2. Service connected for 1-14 days during a billing period will not be billed for such partial month's service.
3. Service discontinued for 15 or more days during a billing period will not be billed for such partial month's service.
4. Service discontinued for 1-14 days during a billing period will be billed for a full month's service.

**Solar Surcharge is applied to all kWh as outlined in Sheet No. 1-SB-1**

## IV. Customer-owned and maintained — Rate Category SL\_COM

Where the customer owns and maintains the street lighting equipment, SMUD will furnish energy and switching and the charge will be based on the connected load served and per watt month will be.....2.37¢  
The manufacturer's rating in watts (including all auxiliary equipment) will be used as connected load.

When a customer requests that SMUD finance as well as install street lighting equipment, provisions of Rule and Regulation 2 apply.

## V. Customer-owned and maintained, metered — Rate Category SL\_COM\_M

Where the customer owns and maintains the street lighting equipment, to **operate solely during dusk to dawn hours**, and requests metered energy, SMUD will furnish a meter, energy and switching and the charges will be as follows:

Service charge per month or portion thereof .....\$8.25  
Energy Charge (¢ per kWh) - all kWh.....7.11¢

## VI. Customer-owned, District-maintained — Rate Category SL\_CODM

Where the customer owns the street lighting equipment and desires SMUD to supply energy and switching and, in addition, provide for the lamp servicing and maintenance, such service will be rendered for lamps and fixtures of sizes and types as indicated on a District maintained list of approved equipment.

The monthly charge for energy and switching will be based on the connected load served and  
for each watt of lamp load will be .....2.37¢  
The manufacturer's rating in watts (including all auxiliary equipment) will be used as connected load.

There will be a separate monthly charge for maintaining each fixture and/or lamp. SMUD will maintain a list of acceptable lamps and fixture types with nominal ratings and the corresponding monthly maintenance charge. SMUD retains the right to modify the list of acceptable lamps and fixtures with nominal ratings and the corresponding monthly maintenance charge. SMUD retains the right to modify the list of acceptable lamps and fixtures to accommodate changing technology or other business needs criteria. The list of acceptable lamp and fixture types, and their accompanying monthly charge, will be available on SMUD's Web site or will be furnished upon request. This list will be reviewed annually and updated as appropriate.

This service is restricted to SMUD-approved locations.

When a customer requests that SMUD finance as well as install street lighting equipment provisions of Rule and Regulation 2 apply.

# Street Lighting Service Rate Schedule SLS

## VI. District-owned and maintained — Rate Category SL\_DOM

Where the customer wishes SMUD to install, operate and maintain the entire street lighting system, such service will be provided with fixtures and lamps of sizes and types as approved by SMUD. A current schedule of District-approved fixtures and lamps eligible for service under this rate will be maintained by SMUD.

The monthly charge for energy and switching will be based on the connected load served and  
for each watt of lamp load will be .....2.37¢  
The manufacturer's rating in watts (including all auxiliary equipment) will be used as connected load.

There will be a separate monthly charge for installation and maintenance of each fixture (including lamps, refractors, ballasts, photo cells and other typical support equipment). These charges are based upon the installation of street lighting fixtures of a design specified by SMUD and mounted by means of varying length brackets affixed to existing wood poles that are used to carry distribution system circuits. SMUD will maintain a list of acceptable lamps and fixture types with nominal ratings and the corresponding monthly maintenance charge. SMUD retains the right to modify the list of acceptable lamps and fixtures to accommodate changing technology or other business needs criteria. The list of acceptable lamp and fixture types, and their accompanying monthly charge, will be available on SMUD's Web site or will be furnished upon request. This list will be reviewed annually and updated as appropriate.

When additional or alternative facilities are installed upon a customer's request, additional monthly charges will be made per the list of acceptable facilities, which will be available on SMUD's Web site or will be furnished upon request. This list will be reviewed annually and updated as appropriate.

### RELOCATIONS AND CHANGES

District will, at customer's request; relocate existing equipment provided customer reimburses District for net expense to District incurred in connection therewith, including appropriate engineering and general expense.

District will, at customer's request, replace existing equipment with new equipment prior to expiration of the existing equipment's service life, provided customer pays to SMUD an amount equal to the unrecovered cost, less salvage value, of the existing equipment to be retired and executes a five-year contract for service effective with installation of such new equipment.

### NEW SERVICE

New service will be for an initial contract term of five years effective with installation of the service. If service is terminated before the contract term, customer will be responsible for an amount equal to the unrecovered cost, less salvage value, of the equipment installed

(End)

# Customer-owned Generation Rule and Regulation 21

## A. Requirements

Rule and Regulation 21 sets forth the mandatory conditions and requirements for the interconnection and operation of customer-owned generation. While SMUD reserves the right not to require some customers to execute an interconnection and operations agreement related to customer-owned generation, such customers shall nonetheless be bound by and must comply with the mandatory conditions and requirements of Rule and Regulation 21.

Requirements for interconnecting and operating customer-owned generation shall be available on the SMUD website ([www.smud.org](http://www.smud.org)) and shall address, at a minimum, the following topics:

- Applicability
- General Rules, Rights and Obligations
- Application and Interconnection Process
- Generating Facility Design and Operating Requirements
- Interconnection Facility Ownership and Financing
- Metering, Monitoring and Telemetry
- Dispute Resolution Process
- Definitions
- Initial Review Process for Applications to Interconnect a Generating Facility
- Testing and Certification Criteria

## B. Changes to Requirements

SMUD's General Manager is authorized to develop, implement, and revise as necessary interconnection standards addressing the above topics and such additional provisions as reasonably necessary to respond to legislation, regulatory requirements, industry practice, operating requirements, or average service costs.

## C. Mandatory Conditions for Net-Metered Photovoltaic Electrical Interconnection of Solar Generation Facilities of 5 Megawatts or Less

### 1. OPERATIONS

Owners of qualifying facilities will design, install, operate and maintain the Facility in a manner consistent with the normal and safe operation of the electrical distribution system owned and operated by SMUD. The Facility is intended primarily to provide part or all of the customer's own electrical energy requirements. The customer understands, accepts and agrees that connection and operation of the customer's Facility shall be subject to the terms and conditions set forth in Rules 11 and in this Rule 21.

### 2. CREDITS FOR NET ENERGY

The customer is eligible to receive credits for energy if the customer's monthly energy generated by the Facility exceeds the customer's monthly energy requirements, calculated by "Net Metering". Net Metering uses a meter or meters to measure the difference between the electricity supplied by SMUD and the energy generated by the Facility and supplied to SMUD. Net Metering account billing options, net energy carryover rules and restrictions and energy costs for the account which serves the Facility are controlled by SMUD's Service Rates Schedules in effect at the time of activation initially and as revised thereafter.

### 3. INTERRUPTIONS OR REDUCTION OF DELIVERIES

SMUD shall not be obligated to accept, and SMUD may require the customer to interrupt or reduce, deliveries of energy to SMUD: (a) when necessary in order to construct, install, maintain, repair, replace, remove, investigate or inspect any of SMUD's equipment or part of SMUD's system; or (b) if SMUD determines that curtailment, interruption or reduction of receipt of energy from the customer's Facility is necessary because of emergencies, forced outages, force majeure or compliance with prudent electrical practices.

Notwithstanding any other provisions of this section, if at any time SMUD, in its sole discretion determines that either (a) the Facility may endanger SMUD personnel or members of the general public, or (b) the continued operation of the customer's Facility may impair the integrity of SMUD's electrical distribution system, SMUD shall have the right to disconnect the customer's Facility from SMUD's electrical distribution system. The customer's Facility shall remain disconnected until such time as SMUD is satisfied that the condition(s) referenced in (a) or (b) of this paragraph have been corrected and SMUD shall not be obligated to compensate the customer for any loss of use of generation of energy during any and all periods of such disconnection.

### 4. CONDITIONS OF FACILITY OPERATIONS

# Customer-owned Generation Rule and Regulation 21

The customer shall deliver energy from the Facility to SMUD at SMUD's meter.

The customer, and not SMUD, shall be solely responsible for all legal and financial obligations arising from the construction, installation, design, operation and maintenance of the Facility in accordance with all applicable laws and regulations.

The customer, at the customer's sole expense, shall obtain and possess all permits and authorizations in accordance with all applicable laws and regulations for the construction, installation, design, operation and maintenance of the Facility.

SMUD may meter, at its expense, the customer's energy usage using one or more meters.

The customer shall not connect the Facility, or any portion of it, to SMUD's distribution system, until the Facility has passed SMUD inspection. Such approval shall not be unreasonably withheld. SMUD shall have the right to have representatives present at the initial testing of the customer's Facility.

The customer may reconnect its Facility to the SMUD system following normal operational outages and interruptions without notifying SMUD unless SMUD has disconnected service, or SMUD notifies customer that a reasonable possibility exists that reconnection would pose a safety hazard.

If SMUD has disconnected Service to the Facility, or SMUD has notified the customer that a reasonable possibility that reconnection would pose a safety hazard, the customer may call SMUD at 1-888-742-SMUD (7683) to request authorization to reconnect the Facility.

## 5. PHOTOVOLTAIC INTERCONNECTION DESIGN STANDARDS

The customer Facility, and all portions of it used to provide or distribute electrical power and parallel interconnection with SMUD's distribution equipment shall be designed, installed, constructed, operated and maintained in compliance with these provisions. Compliance with this section is mandatory unless prior written SMUD approval is provided for those specific items not in compliance. Exemptions shall be in writing, signed by SMUD and will amend these provisions.

The customer shall conform to applicable National Electric Code (NEC) Standards [NEC 690] and applicable building codes.

The customer shall have a dedicated circuit from the inverter to electrical service panel with a circuit breaker or fuse [NEC 690-64(b) (1)].

The customer's over-current device at the service panel shall be marked to indicate photovoltaic power source [NEC 690-64(b) (4)].

The customer's inverter shall have the following minimum specifications for parallel operation with SMUD:

- Inverter output shall automatically disconnect from SMUD source upon loss of SMUD voltage and not reconnect until SMUD voltage has been restored by SMUD [NEC 690-611].
- Inverter shall meet the requirements of IEEE 1547, "Standard for Interconnecting Distributed Resources with Electric Power Systems" and Underwriters Laboratories (UL) 1741. "Standard for Static Inverters and Charge Controllers for Use in Photovoltaic Power Systems."

## 6. MAINTENANCE AND PERMITS

The customer shall: (a) maintain the Facility and Interconnection facilities in a safe and prudent manner and in conformance with all applicable laws and regulations including, but not limited to, requirements of Section 5.0 above and (b) to the extent that future requirements may dictate, obtain any government authorizations or permits required for the operation of the Facility. The customer shall reimburse SMUD for any and all losses, damages, claims, penalties or liability SMUD incurs as a result of the customer's failure to obtain or maintain any government authorizations and permits required for construction and operation of the customer's Facility.

## 7. ACCESS TO PREMISES

SMUD may enter the customer's premises without prior notice (a) to inspect at all reasonable hours the customer's

## Customer-owned Generation Rule and Regulation 21

protective devices and read or test any meter for the Facility and (b) to disconnect, at any time, without notice, the Facility if, in SMUD's sole opinion, a hazardous condition exists and that immediate action is necessary to protect persons, or SMUD's facilities or property of others from damage or interference caused by (1) the customer's Facility or (2) the customer's failure to comply with requirement of these provisions: and (c) monthly to read the bi-directional digital meter for billing purposes. Self-reads and reads from adjacent properties are not permitted.

### 8. INDEMNITY AND LIABILITY BY CUSTOMER

The customer shall indemnify and hold SMUD, its directors, officers, agents and employees harmless against all loss, damages, expense and liability to third persons for injury to, or death of persons or injury to property caused by the customer's engineering, design, construction, installation, ownership, maintenance or operations of, or the making of replacements, additions or betterments to or by failure of, the Facility in connection with these provisions by reason or omission or negligence, whether active or passive. The customer shall, on SMUD's request, defend any suit asserting a claim covered by the indemnity. The customer shall pay all costs that may be incurred by SMUD in enforcing this indemnity.

Nothing in these provisions shall be construed to create any duty to, any standard or care with reference to, or any liability to, any person not a Party to these provisions. Neither SMUD, its officers, agents or employees shall be liable for any claims, demands, costs, losses, causes or action, or any other liability of any nature or kind, arising out of the engineering, design, construction, ownership, maintenance or operation of, or making of replacements, additions or betterment to, the customer Facility except to the extent actually caused by the sole and gross negligence of SMUD.

Neither SMUD, its officers, agents or employees shall be liable for damages of any kind to the Facility caused by any electrical disturbance of the SMUD system or on the system of another, whether or not the electrical disturbance results from the negligence of SMUD or not.

### D. Provisions for Interconnection of Eligible Generation Facilities of 5 Megawatts or Less under the Feed-in Tariff (FIT)

1. Eligible renewable generation and Combined Heat and Power (CHP) facilities interconnecting to SMUD under the FIT, are required to execute a Purchase Power Agreement (PPA) with SMUD. Feed-in Tariff guidelines are available in SMUD Policy and Procedure 8-04 and are posted at [smud.org](http://smud.org).
2. Eligible renewable generation and Combined Heat and Power (CHP) facilities interconnecting to SMUD under the FIT, are required to execute an Interconnection agreement with SMUD. Interconnection Guidelines are available in SMUD Policy and Procedure 11-01 and are posted at [smud.org](http://smud.org).
3. The customer interconnecting an eligible facility under the FIT shall be responsible for all costs associated with Interconnection Facilities owned by the customer. The customer shall also be responsible for any costs reasonably incurred by SMUD in providing, operating, or maintaining the Interconnection Facilities and SMUD System modifications required solely for the Interconnection of the customer's Generating Facility with SMUD's System.

*(End)*