SMUD BOARD OF DIRECTORS MEETING

(PUBLIC MEETING PORTION)

CERTIFIED

June 4, 2019
6:10 p.m. to 7:45 p.m.

Held at
SMUD
6301 S Street
Rubicon Room
Sacramento, CA 95817

Reported by THRESHA SPENCER, CSR No. 11788

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INDEX OF APPEARANCES

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GREGG FISHMAN, President - Ward 3
DAVE TAMAYO, President - Ward 6
BRANDON ROSE - Ward 1
NANCY BUI-THOMPSON - Ward 2
ROSANNA HERBER - Ward 4
ROB KERTH - Vice President, Ward 5
HEIDI SANBORN - Ward 7

SMUD PRESENTERS:

JENNIFER DAVIDSON
FARRES EVERLY

SMUD REPRESENTATIVES:

LAURA LEWIS, Chief Legal Officer
ARLEN ORCHARD, CEO

PUBLIC COMMENTS:

MARK G[redacted]
STEVE UHLER
TOM MEAGHER
ROBIN DURSTON
ROBERT HANCEY
DENNIS ZUMSTEIN
JEFF DURBIN
JACK FREEMAN

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BOARD MEMBER DAVE TAMAYO: Item Number 3 is hold a public hearing on the Chief Executive Officer and General Manager's Report and Recommendation on Rates and Services, chief Executive Officer and General Manager's Report and Recommendation on Rates and Services dated March 21st, 2019, Addendum Number 1, the Chief Executive Officer and General Manager's Report and Recommendation on Rates and Services dated April 12th, 2019, and Addendum Number 2 to the Chief Executive Officer and General Manager's Report and Recommendation on Rates and Services dated April 22nd, 2019.

Court reporter, is that a decent speed for you? Great. Okay. The public hearing will be transcribed by a court reporter, and, under the rate ordinance, members of the public that have not submitted a request for additional time, at least ten days in advance of today's meeting, will have up to three minutes to speak on the Chief Executive Officer and General Manager's Rate Report.

I would ask speakers to confine your comments to the rate report. If you have comments on other SMUD matters, you will have the opportunity to speak during the statements from the public portion of the agenda.

At this time I would like to open the public hearing. Before taking public comment, there will be several staff presentations. One is a proposal of rate restructure by Jennifer Davidson, and, two, is a public outreach activity and summary of public feedback by Farres Everly.

So -- yeah, all right. So we'll start out with Jennifer Davidson giving the proposal of rate restructure.

JENNIFER DAVIDSON: Great. Thank you, President Tamayo. So a quick summary. We released the Chief Executive Officer and GM report of rates and services on March 21st, 2019. We released addendums modifying and removing the proposed Grid Access Charge in April.

We hosted two public workshops, one in the morning and one in the evening, and then tonight we have the public hearing to introduce the draft rates resolution. The board will be voting on the resolution on June 24th, 2019.

There are two proposed changes: The first one is a rate increase for 2020 and 2021. And the second is a commercial rate restructure, and that is designed to be revenue neutral. And what that means is it's not -- it's designed to not collect any additional revenue.

So these changes are needed because we need to improve the pricing consistency and equity for all customers, and there's a lot of change going on in the utilities base, and we want to make sure that we keep pace with the changing utility industry, with technology, climate, and customer needs. And we want to be able to update the grid to incorporate clean energy resources like solar.

Now, before we ask for a rate increase, we first look internally to see what we can do to keep costs down, and we've got a program here at SMUD called Operational Excellence, and from that we have created $28 million of annual permanent savings.

A sample of some of those are listed on the -- in the blue box. But, for example, $14 million of annual savings for new trading practices and new revenue opportunities on our trading floor. Another $3 million from becoming more efficient with our work practices for our field forces.

We do need a rate increase, and here is a short video. It is going to show you that we're asking for 4.75 in 2020 and 4.5 rate increase in 2021.

(Rate increase video was played.)

JENNIFER DAVIDSON: So we know that customers are also interested in understanding what a percentage increase looks like in terms of bill impact. And so what this slide shows in the blue section, a sample bill impact for commercial customers in the blue section, and the white is the residential, and you can see the residential is showing the $5.40.

And I'd like to take a moment to contrast this. According to an article recently in the Sacramento Bee, there are rate increase requests going on simultaneously for PG&E and Edison in the south. PG&E's rate increase will have an average bill impact of $22 a month, and Edison's average bill impact, according to the article, will have an increase of $12 a month.

Again, to reiterate what the changes will support, wildfire mitigation, increasing costs both from prevention efforts and also for insurance premiums.

Capacity for peak demand. We know that when the sun is setting in Sacramento, the customer's demand is still increasing, and so we need to be able to serve that peak, especially on a hot August night. Technology is continuing to increase, and that's both the technology to support distributed energy resources, customer experience, and other cybersecurity. And then investments in our carbon reduction program.

And, you know, we really are in an environment of increasing costs. Since we've put this proposal out, we actually have heard of other two large increases that have come to pass, one of them is an increase in veg management that adds about $3 million a year, and we just recently got our insurance premium renewal indication rates, and that's also another $5 million.

Together, this is going to equate to about another half a percent in rates. We are not going to be asking for that, we are going to be absorbing that, but, again, it just shows the incredible cost pressures the utility industry is under right now.

And our policy is to keep bills as low as possible. When you look at this slide, you can see how we compare to other California utilities. SMUD is the orange bar, as you can see at the end, low compared to other utilities.

And here is one new slide. Director Bui-Thompson, actually back in 2009, we had proposed larger rate increases, and she said, "Can that be broken up into smaller, more frequent rate increases?"

And so the same request was looked to see if we could do, as Director Bui-Thompson said, "What can you do for this? Can it be broken up further?" And so the first one we looked at as well, could it be done to spread it out through 2022? And the answer is no, we could not do that because that brought us into a period that we hadn't really discussed with the public.

But as you look at this rate increase, staff's proposal was to have an increase effective January 1 or 2020 and January 1 of 2021. But if you look at the column titled Option 2, you could see how you could actually apply a rate increase January of 2020 and then October of 2020, and then again in January of 2021 and October of 2021.

And so you could see they're more frequent, but they're smaller rate increases. The other important thing I would point out about this is that it also gives you a higher cumulative point, and so the base is higher. So at this point you actually, for 2022, you would be able to have a smaller rate increase, so that's the other benefit that we had talked about rate increases being in the 4 percent range. For 2022, you actually then would be able to have it down to, like, 2 percent because you just have a higher base you're working off of.

So that ends the portion on the rate increase. The second part has to do with the commercial customer rate increase.

As we described, it's designed to be revenue

neutral. Again, we're just changing the charges, but
we're not collecting any more revenue. And we're going
to break this up into kind of -- describe it in three
components.

So the first one is that we are going to be
increasing the fixed charge, the first recommendation,
increase the fixed charge and reduce the energy charge.
You know, the energy markets have changed, the way
customers are using energy has changed. And so,
because of that, we want to move our fixed cost into a
fixed cost collection -- there we are -- into a fixed
cost collection.

And so -- but because we're increasing the fixed
cost, we'll be reducing the energy charges again to be
revenue neutral.

The second chart has to do with the time
periods. Some of our rates haven't changed in a
decade, some two decades, and so our prices do not
align with the commodity markets. And so what we're
proposing is that we're going to be able to pass on to
customers, during the eight months that are not summer,
so we've got the twelve months that are summer, the
eight months that are non-summer. And so during the
day, during those eight months, there are now new low
commodity prices. And we're going to be able to pass

on those new lower commodity prices to our customers, which means that there's going to be from 9:00 a.m. to 4:00 p.m. a new off-peak saver rate. We are also recommending that we add a peak period that would be year round from 4:00 p.m. to 9:00 p.m., but the peak period would not be on weekends nor on holidays.

And the other thing that we are recommending -- the third recommendation is that we want to have consistency across the commercial classes. There are eleven commercial classes, and each class has different charges, different math, different rates.

And the class the customer is in depends upon how much energy they're in. And so what can happen is that a customer can use a little bit more energy, jump into a new class, and yet their bill can spike. Or, conversely, they can be in a class, invest in energy efficiency and not see their bill go down because it will go down to a new class, but yet the bill changes and they don't see the savings.

And so we want to improve and have consistency across all of the classes. And so in order to do that we're going to be adding a small demand charge to our smallest customers. We're going to be adding a summer peak demand charge to the customers that did not have it, excluding the smallest commercial, and then we'll also be modifying the energy usage again to keep the change revenue neutral.

Also, for number -- recommendation number 3, we have a transition schedule because we want to make sure that we don't cause bill shock for our customers. So one of the first things is the commercial would not be -- would not be effective until starting in 2021, so that would give commercial customers a time to learn about the rate.

And then it would be a slow transition through 2028, and that will be because we want to make sure that, as we migrate the customers through this structure change, no more than a 5 percent increase per year for 95 percent of the customers. And what I'm trying to say is that while the class is revenue neutral, individual customers, some will see their bill increase and some will see their bill decrease, but we want to make sure that no customers are impacted too greatly, and so, hence, we use this rule 5 percent per year for 95 percent of the customers, or for the very smallest it will be under $5 a month per year.

So utility rate making is actually a pretty technical, I guess, craft, and so SMUD has a rates group, and it's made up of people who have, you know, engineering degrees, math degrees. But we also, because it is so complex, we do also hire two independent firms for peer review, and NERA, who is an economic consulting firm, and Brattle, who is a rates expert, and we ask them to review our rates and to do peer review.

And so they actually say that our proposed -- in their review of our proposal -- they say the rates more closely align with marginal cost and cost causation. It's the appropriate rate consistency, efficient, and accurate price signals, and they also said the proposal, the transition is appropriate and reasonable. And so we think that that -- sort of independent verification of our analysis is a good practice.

There were two addendum changes in 2019. We did remove the Grid Access Charge for customers who have on-site solar generation. We are committed to making rates and fixed cost recovery fairer and more equitable for all customers. And so after we end this process, we will be starting a public stakeholder process to examine the rates for customers with on-site generation, and we'll use that feedback to develop a new successor net energy meter reading rate.

There are some additional changes, some miscellaneous, and that can be found online at SMUD.org/rateinfo.

And, with that, I'm going to turn it over to Farres Everly to describe the public outreach process.

FARRES EVERLY: Good evening. My name is Farres Everly, and I'm the Director of Communications and Marketing, and this is an update on the public outreach process.

As -- as always, this is a fully-integrated communications campaign. Starting in the upper right, we have lots of community engagement including informational roundtables, community outreach meetings, public workshops, and associated collateral.

Next we have very strong email, web, and digital. We have a dedicated page on SMUD.org and E-newsletters, which took a much larger presence they ever have before. I'll talk about that in the next slide. And videos, one of which you just saw, and social media.

For PR and marketing, we have printed newsletters for residential and commercial customers. We have press releases to all the local media. We have published three public notices, and we have fact sheets, newsletter articles.

For bilingual capabilities, we have rate materials were available to be produced to any language upon request, and we had bilingual speakers trained in

Russian, Tagalog, French, Spanish, Vietnamese, Punjabi and Hindi.

We also always pay attention to our internal employees because they're often our best ways of getting the message out. They need to answer questions for their neighbors, and we have very robust internal communications to make sure they understood exactly what we were doing.

So customized engagement by audience is what we looked into, and we did that by providing customized materials into vulnerable populations, community and business leaders, neighbor service and faith based, and elected officials, and then just a few numbers.

We had 70 organizations receive in-person presentations, and that included at the roundtables, the community and elected, and our Business Advisory Council Meetings. We had 200 community and business leaders who were invited to the roundtables and offered meetings, more than 500 neighborhood associations, churches, and service groups were contacted about the rate process and were offered additional information.

56 elected officials were mailed info packets and offered additional meetings. Nine meetings were held. And these last two bullets I mentioned in the earlier page, these were something new and something

very large that we did. We emailed more than 360,000 customers and organizations with details on the rate process, which we've never done that before, so that was a big step for us. And for the business customers, our chamber partners and PBIDs, more than 20 were sent rate action information and details to their memberships, so that was a great way that we got the word out to our commercial customers. So that is my presentation for you this evening.

JENNIFER DAVIDSON: So the next steps is that we're having the public hearing now, and then the draft board resolution will be out for public comment, and then the board will make a final decision on this June 24th.

For more information, it's available online. You can also email us, call us. The phone number is here. You can see there is a general phone number and then also specific numbers for commercial customers and residential customers, and we welcome your questions and comments. And that ends our presentation.

BOARD MEMBER DAVE TAMAYO: Thank you, Jennifer. At this time we'll take comments from the public on the Chief Executive Officer and General Manager's Report.

When you do comment, please speak into the microphone and state your name for the record. Please do not move the microphone as it is designed to pick up your voice at a distance.

Please remember to direct your comments to the board. And if you have written materials you wish to provide to the board, please hand them to the security officer to distribute.

I do want to correct something for the record. I earlier read that this is item number 3, and this is actually item number 2 on our agenda. But, anyway, so we've received two requests for additional time to provide alternative rate proposals from Mr. G[redacted] and Mr. Uhler who will have ten minutes to present their comments and alternative rate proposals.

And so we'll begin with Mr. G[redacted].

MARK G[redacted]: All right. Good evening, Directors and Staff and everybody. My name is Mark G[redacted], and I live in Elk Grove. This is what I will be talking about tonight. I hope that this clicker works.

I want to say I appreciate the flexibility of your staff in working with me on my slides. Initially I sent my slides on Friday, and I revised them and sent over my revised and final slides early this morning, and that's what I'm showing you tonight. And I appreciate that your staff was willing to roll with me on these. This is a summary of my presentation tonight. I'm not going to read my slides to you, but I will give you a moment to read them.

All right. And this is my proposed alternative, which would address and solve both of the problems that were on the previous slide. We begin with the California Constitution, Article XIII C. This was put in place by Proposition 218 back in 1996 and further revised and extended by Proposition 206 in the year 2010.

Have a look. As you know, SMUD is not planning to submit the proposed rates to the voters. Your vote on June 24th is going to be the only vote. This is what it means according to the Government Code when a tax is extended or increased.

You're extending the tax that is in your current rates by extending them for 2020 and 2021. You're increasing them by 4.75 percent next year and an additional 4.5 percent the year after that.

Article XIII C also defines a tax. And the key here is going to be does the rate exceed SMUD's reasonable cost of providing the electricity service.

Now, during the last six weeks or so I submitted several questions to your staff about the proposed rates, about the CEO and General Manager's Report, and a number of them were about the section in the report on compliance and on Proposition 26.

According to Ordinance -- SMUD Ordinance 15-1, your staff was supposed to answer those questions, including legal questions, and that's the direct quotation from Ordinance 15-1.

Unfortunately, your staff chose not to answer any of the legal questions. I'm asking the board to direct staff to answer the legal questions about Proposition 26 and about the section in the report on compliance. The public deserves to know.

Here is the first question. Do the current rates exceed your reasonable costs of providing electricity service? The reason the current rates are an issue is that you're extending and increasing the current rates.

The Rate Design Study that I've identified here provides the answer to that question. All right. This is the paper rail, essentially, starting with the previous CEO and General Manager's Report, which included an appendix, as it says, and that appendix was the letter from NERA Economic Consulting that you've apparently hired again. And NERA reviewed certain SMUD documents and made a recommendation. One of the documents that NERA said it reviewed was 2018, there is the title. I'm just calling it the Rate RT02 Design Study.

And it went down one at a time at each of the marginal cost components in the last paragraph is a list of those marginal cost components.

It was a very carefully-prepared Rate Design Study up to that point, and here's where the problem came in. The SMUD added a -- what it's calling a scalar of 9.2 percent. In other words, that was not a marginal cost component. It was simply to -- so that you would take in as much money as you wanted to.

This is an actual -- one of the tables in the Rate Design Study, Table L on page 14. I'm also going to show you Table M. Take a close look at the final column over on the right, total energy marginal cost, it is simply the sum of all the earlier columns.

And this is Table M, also page 14 of that study, and you can see here where it says "total energy marginal cost," that's the same as total energy marginal cost, the right-side column Table L.

So SMUD is simply literally added 9.2 percent, you see the scalar, and to reach the 2017 energy charges. And those are more or less the charges of your current rates that the board adopted in 2017.

And here is literally the SMUD explanation of this scalar. But, according to the California Court of Appeal, you must not do that. Your rates must be based on SMUD's reasonable costs, and there is a direct quotation from a court case, Capistrano.

Here is the full citation of that case. So here's the bottom line. Your current rates are 9.2 percent higher than your marginal cost of providing electricity service, that's why the current rates are a tax. The scalar is a tax and the current rates are a tax because of the scalar. What you did in 2017 was simply set your rates based on a predetermined budget.

It -- I believe it defeats the purpose of a Rate Design Study if you're going to go -- if NERA Economic Consulting is going to go through it carefully one marginal cost component after the other, and then blow the whole thing at the end -- pardon my informality -- by adding something that's not a marginal cost component.

Okay. The other question, do fixed charges violate Article XIII C of the California Constitution? On page 89 of the current CEO and General Manager's Report, detail of rate changes, here are the proposed System Infrastructure Fixed Charge for the next two years. And here's what the California Constitution says about that. I've added emphasis by underlining.

Now, consider two hypothetical SMUD customers: A single man and a married man with five children -- my apologies for reading this -- the single man in his household are going to use a lot less electricity than the married man with five children, yet they both pay the same System Infrastructure Fixed Charge, so you go back to -- to their costs. "Bear a fair and reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity." It should be clear that the answer is no. And here is my proposed alternative.

It ought to be familiar, it was on an earlier slide. And here's how adopting that alternative will solve the problems, and, therefore, your rates will comply with Article XIII C of the California Constitution.

Well, that is essentially it. I welcome any questions or comments from the board. I hope that the board members will express an interest in this. It is actually very important; it is not an issue that's going to go away. I believe it should be of interest and concern to all SMUD customers, and what I've said is only residential, but some of these arguments apply to commercial rates as well.

Thank you. Good night.

BOARD MEMBER DAVE TAMAYO: Thank you, Mr. G[redacted].

Our next speaker is Steve Uhler.

STEVE UHLER: While we're waiting, do you have the notice from the Energy Commission on the rule making? Did you -- are you -- are you -- did you get copies of the notice? I turned that piece of paper in. That's part of my presentation.

Rather than hold up, it's a notice that says if you're going to start rule making -- pre-rule making for the enforcement of RPS for POUs.

Here's my presentation where I put forth profound knowledge will guide you to reach your goals, if you let it. My name is Steve Uhler, U-h-l-e-r. Sorry, thank you.

Alternate rate recommendations. SMUD's creation is from state laws establishing local agencies in the Public Utility Code. "The board shall consider any recommendations submitted in writing by any member of the public on alternatives to the rates changes proposed by the general manager." California Public Utility Code allows me, with ten days written notice, to make this presentation at this hearing. The recommendations will offer solutions that may have been overlooked or avoided by staff.

SMUD is committed to be fairer and more equitable in making rates and fixed cost recovery fairer and more equitable for all customers. SMUD has launched a public stakeholder process to examine rates and customer owners -- for customer owners and develop additional analysis addressing the costs and benefits and subsidies related to systems.

SMUD will use feedback from the analysis and customer owners/stakeholders feedback to further explore -- it's my screen -- rates related to customer owners and appropriate assignment of costs and benefits.

SMUD's rates are among the lowest in California but only for some customers. The challenge is to remove all cross subsidies. Accurate costing will improve cost recovery and customer loyalty -- customer owner loyalty. Customer experience excellence is a SMUD goal.

Making rates more -- making rates and cost recovery fairer and more equitable for all customer owners.

Some customer owners are paying without benefit. Rate structures that recover legacy costs -- legacy commodities and service -- recover costs for legacy commodities and service that customer owners don't benefit are unfair. Costs related to deferred maintenance are unfair. Costs related to green pricing products and marketing have been "baked in to the rates," as one SMUD executive noted.

SMUD markets green pricing products -- green pricing products that appear to be a good deal because costs are baked into the rates and paid by others who don't receive the value. It doesn't have to be this way. Costing of products can be fairer and more equitable for all customer owners.

Public stakeholder process for feedback. Feedback points to unfair fixed charges. Fixed charges produce tiered rate structure on actual costs per kilowatt. A side note is you say you've moved away from tiers, but you actually have many more tiers.

Average -- use of average customer owner comparisons are unfair and misleading. Have you ever met a 750-kilowatt-per-month customer owner? Perhaps so-called average customer owners are rare. Fixed charges don't take advantage of the smart grid in a way that benefits all customer owners. A smart grid does not require fixed charges for customer owners to access the system.

Material Requirement Planning Systems, SAP and others, SMUD customer owners have owned since the late

'90s, are underutilized by staff. This is my major point, getting sufficient information which I didn't get, I was hoping to actually give you a real alternative rate proposal, but I was unable to do that. Their responses are such that lead me to believe that they do not use these techniques that are used by corporations like Toyota and anybody who is a top 100 corporation would use.

Using material resource planning. Product structures drive MRP, product structures are like recipes. Eli Whitney used interchangeable parts and MRP to sell and deliver arms to U.S. government. Even though some thought it impossible to produce lock, stock and barrel using interchangeable parts at the time. I have used MRP to manage the production of aircraft, electronic equipment and devices with billions of parts and operations in continuous operation. Modern automated MRP makes child's play of the design and costing -- let me see my -- oops. Did I hit the right button here? Where am I at here? I got behind, sorry.

Modern automated MRP makes child's play of the design and costing -- design, costing, and execution of production. Modern -- from "batch and queue" to "just in time" delivery, any type of production will benefit.

MRP better matches the just in time nature electricity production, when compared to analog modeling that uses averages in batch and queue fashion as the system has -- as if the system has ample storage to queue the batches of electricity.

We all know that there is not enough storage out there to store our solar. A lot of solar is being curtailed right now.

Let's see. Before any changes in rates and charges for commodities or services furnished, before changing the rates, perhaps the staff is over -- under -- has overlooked the requirement for statements of sales volumes by customer types for the preceding two years and estimates of sales volumes for two years following for commodities and services furnished in sufficient detail to prevent an assessment for the need of -- for the need of any proposed changes.

Staff appeared not to have knowledge of the requirements of the Public Utility Code -- Utilities Code when it comes to suppling the public information -- supplying information to the public that -- to assess rates and design alternatives.

When I asked for information to produce my alternatives to the General Manager's plan, staff fails to supply it in sufficient detail to permit assessments of need of any proposed changes -- rates -- changes in rates and charges.

Don't adopt any resolution without sufficient detail to permit assessment of need for any proposed charges.

Residential commodities, I won't go over the numbers here, but, basically, apparently you come up $12 million a month short. So this -- this has got to come up from somewhere. No sufficient detail is telling you how you're paying for this $12 million. Sufficient detail is required under the section of Public Utility Code that requires you to have this hearing. I wish to have sufficient detail. I can take at any time to comment in the future on this, but please see that I get sufficient detail to do an alternate rate proposal.

Let's see -- let's see -- yeah. Excuse me. I'm not used to having to fire two -- two buttons here, sorry.

Yeah, these are the numbers, $12 million. So now we'll go prepare to find the truth about SMUD rates.

You should make "in God we trust, all others bring data" SMUD's motto when rates and charges are to be assessed.

Many costs appear fabricated to sound plausible. Require factual data to support contentions. SMUD staff members have personal stake in status quo and will resist changes leading -- changes leading to making rates and cost recovery fairer and more equitable for all customers.

Arlen Orchard's "pretty big hammer" over SMUD customer owners choices may allow unfair rates and charges. He has told staff that he hates the term "customer owner" and killed the board's "Compact With The Customer."

Use of MRP will help you find where SMUD loses money and where SMUD makes money. You may find rates and charges are based upon opinions and not facts. Perhaps you should hedge your bets -- let's see -- perhaps you should hedge your bets.

Use tools you already have. SMUD customer owners bought MRP systems that are underutilized. Many ad hoc reporters can do the job if you have knowledgeable staff. Kitting for a pole replacement or planning for customer owned battery storage that will increase your ability to deliver real renewable energy to your customers, the process is the same.

Build product structure files, get factual answers.

A much lower head count is required to produce more -- far more actionable information that will lead to less and shorter board meetings and better outcomes.

Do it to maintain customer loyalty as you face disruption of your business model. And then there's a couple of quotes, but I have 30 seconds.

That -- when you confer with your legal counsel on the rulemaking that's coming up, I wish you would have asked them about worse case scenario and about whether or not the current regulations for enforcement of RPS completely fulfills statute.

I have a petition in, and they decided to go to rulemaking. I believe I pointed out some major flaws in the -- the regulations that can change how you should have done your rates. Thank you.

BOARD MEMBER DAVE TAMAYO: Thank you, Mr. Uhler.

The next speaker is Tom Meager. And after that will be Robin Durston.

Tom, you've got three minutes.

TOM MEAGHER: Okay. I'm sure you're familiar with my spiel by now. I thought I'd repeat it again. By the way, today I was down at the California Assembly with the Solar Bill of Rights people, and they're trying to pass this bill that will preempt any war on solar by any utility trying, you know, to overcharge or hinder rooftop installations.

Another thing that we all think is related is the old fixed charge issue. And I think it's interesting how many -- how few people in state government understand that fixed charges hurt solar, hurt conservation, are not equitable. And, as we learned from NRDC, that the best way to recover fixed charge is not per house, it's through a volumetric charge per kilowatt hour. And there's lots of studies related to that.

Let's see, one little side issue. SMUD's CFO has told me many times that the actual fixed charge is $41, that includes $25 neighborhood distribution. But it turns out a lot of utilities use different criteria for collecting -- for calculating a fixed charge. And a lot of them do not include neighborhood distribution.

So that would, depending on how you run the numbers, that would put SMUD's fixed charge at $16. Now, I personally think it should be $0 or $5 or $6.

And I guess the last thing I wonder about is if SMUD is so desperate for a little bit of more income, have you seriously considered adding a tier at, say, 800 or 1,000 kilowatt hours? It seems like the whole system now is rigged to punish the poor with high fixed charges. Some are paying 25, 30 cents per kilowatt hour, and award the rich who their actual realistic rate is 12 cents. So I think that should be a part of your plan since most of the utilities have some kind of a tiered rate to encourage conservation.

Let's see. Well, I guess that's about it. But I think a tiered rate, which I've heard some of you say, doesn't seem feasible. It's in place all over the country, and the California Energy Commission recommends that as a way to nudge people to use less electricity.

Okay. Thanks.

BOARD MEMBER DAVE TAMAYO: Thank you, Tom.

Robin Durston.

ROBIN DURSTON: Hi, I'm Robin Durston. SMUD's proposed rates violate Article XIII C of the voter approval for local tax levies because we're -- they're not voted on by the voters, it should be by a two-thirds vote.

And the time of day rates are the third highest in the list of electric companies, the list provided by SMUD, according to a Sacramento News and Review article.

The fixed rate charge is unfair to differing households, as pointed out by Mark G[redacted] and previous speakers. I agree with Mark G[redacted] that SMUD should remove the 9.2 scalar that SMUD added when it created the time of day rates in June 2017 and that raised rates by 4.75 percent and 4.5 percent for 2020 and 2021, and eliminate the System Infrastructure Fixed Charge. It looks like these rate increases are just made to make SMUD's stock go up. They're not based on reasonable costs for service. So it's too much for people on a fixed income, and there should be a tiered rate for low income. Thank you.

BOARD MEMBER DAVE TAMAYO: Thank you.

(Applause.)

BOARD MEMBER DAVE TAMAYO: The next speaker is Robert Hancey. And I just wanted to clarify -- and I'm sorry, I can't read the last words you have after the name, Robert Hancey.

ROBERT HANCEY: Yeah. I'm a retired ICU RN.

BOARD MEMBER DAVE TAMAYO: Oh, okay. So -- and I just wanted to clarify. Did you want to speak in the public hearing portion of this?

ROBERT HANCEY: This is what I'd like to speak on.

BOARD MEMBER DAVE TAMAYO: Okay. Yeah. I just wanted to make sure because we had the wrong agenda number there.

ROBERT HANCEY: Okay. Yes, hello. My name is

Robert Hancey. I've been a SMUD customer since 1973. I've been a homeowner for about the last 15 years. My home has a SMUD rating 25 percent greater than code. I have solar on my roof. I've painted every south-facing structure with a thermal reflective paint. I have all LEDs in my home, and now days from 5:00 to 8:00 we have one TV, one stereo, and two LED lights. Prices are going up.

So, first off, I recognize that Sacramento County has historically been working class in terms of its population and its income. We have lots of new construction here at SMUD. I don't see any new hydroelectric facilities. Hell, if we just spent a couple of dollars on some new bearings for the turbans, we could push three or four percent more efficiency out of those.

Additionally, we have a worldwide glut of natural gas. We should be spending some time getting long-term cheap contracts so that we can cover these costs. The pie is getting smaller for all of us. We have development ad lib in this county, Elk Grove probably another thousand homes in the next year.

Everybody is going to bear the costs of putting in the infrastructure, which is not too bad, but the reality is, is the pie is getting smaller for all of us. There are limited resources, natural gas, solar, and hydroelectric. All of those are finite resources.

Okay. The next thing I worry about is economic stratification. The reality is is that there's a fair number of folks in Sacramento who are on fixed incomes. They're going to have a tough time, and it will be coming down to those who can afford the peak time periods and those who cannot. Of the group that cannot, it's going to be a fair number of elderly citizens.

As an intensive care RN, I have seen more than my share of heat stroke in elderly individuals. Good recovery if you get to them in four hours, poorer recovery after five hours. We will see increased death of elderly, overweight folks simply because they cannot control their core temperature.

SMUD costs 4.5, 4.7, 4.75. My costs for 2019 and into 2020 are already 11 percent, and that's not counting the 5.6 cent increase in gas tax on July 1. I'm retired, luckily I've got a good retirement income, but there's a lot of folks that are not in the same boat as me, and I'm concerned that they're going to bear the costs and SMUD is just going to look the other way. I don't want that to happen.

Also, I worry to some extent that what's going on tonight is simply a pro forma hearing and you folks have already made your decisions. And I would say don't do that. Thank you for your time.

(Applause.)

BOARD MEMBER DAVE TAMAYO: Thank you. The next speaker is Dennis Zumstein. And I just wanted to make sure that you wanted to speak in the public hearing and not on the resolution portion; is that correct?

DENNIS ZUMSTEIN: Yes.

BOARD MEMBER DAVE TAMAYO: Okay.

DENNIS ZUMSTEIN: Yeah. My name is Dennis Zumstein. I live in Carmichael. I moved here last year after the California wildfires took my home in Santa Rosa. I chose Sacramento because I was told that the rates on electricity were much lower than I was paying with PG&E, so we decided to put solar on our house this year. In the middle of the project I'm told by the solar company, "Oh, by the way, the rates are going up, the grandfathering has been changed, and you're probably not going to get the payback that you anticipated."

My questions, and since I'm new to the area and I'm not familiar with the regulations and the procedures to find out information, I thought tonight would be a good time to come and ask some questions.

Is this grandfathering that I was told was
20 years for solar people, is that being changed?
CEO ARLEN ORCHARD: Do you want me to go ahead
and just answer that quickly? So just to answer your
question, we've taken that proposal around solar
completely off the table, so currently our existing NEM
program applies to any solar that's being included. So
that's the whatever is in place right now, we're then
going to engage in a -- probably about a year-long
process to engage the community, do a study around
solar, and then come back probably in 2021 with
potential changes at that time, based on the modeling
that's done and based on the community feedback we get.
DENNIS ZUMSTEIN: So, if I understand you,
that's still under review?
CEO ARLEN ORCHARD: That will be under review,
and so we probably won't have anything for about two
years on that.
DENNIS ZUMSTEIN: Okay. The other -- another
speaker mentioned that the public had been informed of
the rate change projections. I hadn't seen anything in
my monthly bill to tell me that there was going to be
rate changes. Was that sent out? It was? Then I
obviously didn't see that. So -- as I said, I'm new
here, so I'm still trying to figure out how this system

works.

That's really all I had to say. Thank you for your time.

BOARD MEMBER DAVE TAMAYO: Thank you very much.

(Applause.)

BOARD MEMBER DAVE TAMAYO: The next speaker is Jeff Durbin. And, once again, I wanted to make sure this is the item that you wanted to speak to, Jeff?

JEFF DURBIN: Yes, sir. Thank you.

BOARD MEMBER DAVE TAMAYO: Come on up. You've got three minutes. And I do understand that you wanted to speak separately on the items not on the agenda, so you'll have additional time later.

JEFF DURBIN: Thank you. My name is Jeff Durbin, D-u-r-b-i-n. I agree with many of the speakers we've had today. They have really -- I came to the last meeting in May, and there was only, like, five or six or maybe ten people here, and I met Mark and was just really impressed by his jumping in and looking at this stuff.

So I agree with him with the current rates and with SMUD's Rate Design Study with a 9.2 percent scalar, that I agree that that is also a tax, and that needs further discussion if we're going to raise our rates further.

The last time I spoke I asked about how much we're spending to cloud seed in the area. They didn't have an answer for me in the budget. They said it was -- they actually emailed me an answer that was about $300,000 a year and said it wasn't in the same budget, though. So I've been online today quite a bit trying to find -- I did a lot of P&O research, and I can only find general budget outlines, I can't find a really line-by-line kind of thing. And I've read articles that we spent like $1 million last year to cloud seed because we went from 192 square miles in El Dorado County to, like, 444 square miles with this really clean energy that the planes that we hear and whatever is coming out of them, but...

We've been doing that for 50 years, and I think a lot of people don't know we're doing that seeding, I'm not sure all the studies are -- I'd like to look at that a little further too.

I'm trying to find where I can get to look at the actual 2020 budget, actually line-by-line. Is there a place I can look at that online?

CEO ARLEN ORCHARD: The 2020 budget hasn't been approved yet. That will be done in December of this year. There is a process that begins roughly in October.

JEFF DURBIN: I clicked on a lot of links, and there was something about -- it was an outline for the budget, I guess, maybe.

LAURA LEWIS: Keep going. Sorry. I don't know why it's doing that.

CEO ARLEN ORCHARD: Keep going.

JEFF DURBIN: So they have an outline of it. I'm just -- I'm just looking to break it down further to where I can see where, like, when we have the smart meters that they probably have some money we get back from data on that, where does that fit back in?

CEO ARLEN ORCHARD: Yeah, why don't we take -- have staff take that off-line with you and figure out exactly what you're looking for and see --

JEFF DURBIN: Okay.

CEO ARLEN ORCHARD: -- if we have existing documents we can point you too.

JEFF DURBIN: Okay. Thank you very much.

BOARD MEMBER DAVE TAMAYO: Thank you, Mr. Durbin.

All right. So next we have -- oh, excuse me. Let me get back to my script here.

Mr. G[redacted], we're going to, once we have moved to the next agenda item, you'll have another opportunity to speak on the resolution. So --

LAURA LEWIS: President Tamayo, may I just make a comment --

BOARD MEMBER DAVE TAMAYO: Yes. Sure.

LAURA LEWIS: -- in response to Mr. G[redacted]'s statements? Just to clarify for the record, the General Manager's Report does contain a detailed Proposition 26 compliance section. That section speaks for itself, and, as I've explained to Mr. G[redacted], no further explanation is required.

Mr. G[redacted] is free to disagree with our legal analysis, and there are remedies available to him if he does. And he's very familiar with these remedies given that he has filed several of these fee lawsuits against SMUD, one of which was dismissed it its entirety, and another one which is currently pending on our 2017 rate process.

That said, Mr. G[redacted] did note, and it's correct, that there is an exception to Proposition 26 that allows us to set rates that do not exceed our reasonable cost of service. He mentioned a few times, and I point to you percent scalar, I think we're happy to answer questions about what that is. I believe staff is prepared to do that, and I don't know if Jennifer or Alcides can come up and provide that explanation to set the record straight on that.

And I also wanted to respond to Mr. Uhler. We do -- the information that he claims is missing is contained in the General Manager's Report in Table 43 on page 127 and Table 44 on page 129 and on Table 39 on page 123, so my time is apparently up, so...

BOARD MEMBER DAVE TAMAYO: Jennifer, I think, you know, it would be appropriate for you to address that scalar question.

JENNIFER DAVIDSON: Certainly. Well, another name for the scalar is something called -- another acronym, EPMC, and what that stands for Equal Percentage of Marginal Costs.

And the reason it has actually has something is because it actually is a common practice, and I'll tell you what it is in just a second, but just to let you know it is a common methodology. It's used by IOUs, and it is also used by regulatory bodies across the country. The CPUC has recently accepted some recent rate cases using that methodology.

And so now for what it is. Again, we talked about how rate making sometimes can be complex, but the marginal cost in rate making is the cost of adding one more customer. And you'll recall we talked about there's the marginal costs and there's the embedded cost, and at no time are they ever equal. Sometimes embedded costs is greater than marginal and sometimes it's lesser, and so you needed to have a factor to equate the two.

So it is true that right now the marginal cost is less than the embedded cost, so we needed to figure out what is the right way to correctly allocate costs in the cost study from the marginal cost to the embedded cost, and we also want to make sure that we allocate those costs accurately and equitably, and so we do apply a math formula or a percentage to all the components to appropriately scale, hence the name "scalar," between the cost of adding one more customer and all actual total costs of our system.

And, again, I remind you that we're a nonprofit agency, so every dollar we need is to run the business. There isn't any additional profit that we're collecting.

BOARD MEMBER DAVE TAMAYO: And so I just wanted to clarify something. Mr. -- Jennifer, I think this can be addressed to you.

So Mr. G[redacted]'s comments seem to imply that the marginal cost of energy was equivalent to the reasonable cost of delivering our energy to the customer, and I gather that that's not the case, that it's ignoring the embedded costs? Am I interpreting that --

JENNIFER DAVIDSON: So marginal costs probably has to do with -- more with technology than it has to do with, you know, is the cost of serving one more customer, has it increased compared to the past or is it decreased compared to the past? And due to technology, you could argue that the math is saying that it's decreased, and so that is why you always get that point that, you know, adding one more customer, how does it compare to historical costs, and that's where the embedded costs, when it is lower, embedded costs are higher than marginal costs. And when they're higher they go that way, but there's always an imbalance because the current is never equal to the past. It's always either greater or lesser. Very rarely is it equal.

BOARD MEMBER DAVE TAMAYO: But there's not an equivalence between the marginal costs of energy and the reasonable cost of supplying the energy to the customers; is that correct?

JENNIFER DAVIDSON: That is correct.

BOARD MEMBER DAVE TAMAYO: Okay. Thank you.

All right. So I want to open this up to questions from the directors.

No questions from -- Director Fishman?

BOARD MEMBER GREGG FISHMAN: I wonder, Arlen, if you could -- or somebody could speak again to some of the cost-cutting measures that we've already engaged in and what we're doing to try to reduce our costs even further.

CEO ARLEN ORCHARD: Sure. Sure. I'll have Jennifer address the $28 million with more specificity because she's got that at the tip of her tongue, and then I'll -- I'll talk about our ongoing efforts at that -- when she's done.

JENNIFER DAVIDSON: So, as we've said, we, first of all, we have implemented a formal program at SMUD to imply Operational Excellence, and it really goes to telling employees that it is your job to look for savings every single day. And it's this idea that little savings can compound into big savings, and it's sort of this whole point that we really tell employees it's their obligation, it's their responsibility to be looking for these cost savings every single day.

And so through that we've been able to identify, and we work really hard at identifying and then capturing them. Because we want to make sure that, you know, we don't immediately find a cost and then fill it in with something else. We also have a formal program that, once identified, we really capture and target and

then make sure that we can commit to that savings.
        And so the particular examples that we have is that we have new training practices, and through new training practices that's bringing in $14 million of permanent cost reductions. We have another $6.8 million of just the equipment efficiency improvements in our generation from wind turbine efficiencies -- and that's the other example -- where we go ahead and we do the cost benefit analysis at all times. If we can go ahead and improve this equipment? Does this investment make sense? Does it make sense for us to invest in the thermals and get the efficiency out of it?
        And so we're always doing the analysis, and so we've increased the efficiency at our thermal plants, we've increased the efficiency at the wind turbines, and sometimes they can be as simple as, you know, putting a coding on the blade of the wind blade, which makes it more aerodynamic and more efficient as it generates electricity.
        Another example I think I mentioned, is about $3.3 million from more efficient work practices for the field forces, you know, to make sure that they're, you know, not going here and there, but that they're very clear. Or when, for example, when they know -- think

about when you go into a backyard, where is a pole located? You know, theoretically, there's four backyards you may need to go into before you find the pole, making sure we have a really clear picture, you don't have to knock on four households, you knock on one household to find the pole. Little things like that, but that's the idea about how they can aggregate. And if you make sure that you're capturing them, that you can really turn them into hard dollar savings.

And then we also have -- we keep very careful record of our contact center, and so we are aware of our volumes of calls -- unexpected calls. And so we also carefully match the staffing requirements for our calls to make sure that we run as sufficient of a call center as we can as well. So that's kind of a sampling of the variety and the -- sort of the enterprise view that we're all looking for cost efficiencies.

CEO ARLEN ORCHARD: So that's historically what we've been able to capture over the last couple of years, and so we have ongoing Operational Excellence program where we continue to look for opportunities to save money and improve how we do our work every day.

We have a big initiative in Frankie's area and delivery in looking at workforce optimization, and because that is our field work that we do, and that is obviously a very high cost and a big part of what we do in delivering reliable service to our customers.

So the workforce optimization will help us plan better and allocate our crews better into the field, which we should be able to do -- get more work done with the same level of labor, so we're hoping to see some savings associated with -- with that.

Again, we're looking at a lot of very small things throughout the organization. Steve has implemented in the rollout of new technology, and we've seen things come in at a much lower cost. Agile development and agile rollout, we've seen savings associated with that.

For example, we will be rolling out a new online travel where we'll be able to provide everyone much more flexibility on travel. Originally that came in at several million dollars. By us looking at that project much differently, it's been reduced to $400,000 roughly, so we're looking at a lot of those types of savings.

Even when we go out into the market and we procure renewables and look at how we meet the state mandates, we're looking at how we optimize what the state allows us to do to meet those mandates, but do it in the most cost effective way possible, and so we

expected to see some substantial savings over time.
So we have an ongoing program, it's not a one-and-done, but we've kind of captured a lot of the low-hanging fruit through the $28 million, and it gets harder and harder to actually find additional savings, but we'll continue to work on that, and we should see some additional savings associated with some of the technology investments we're going to make over the next several years.
BOARD MEMBER DAVE TAMAYO: Thank you.
Any other questions?
BOARD MEMBER BRANDON ROSE: President Tamayo?
BOARD MEMBER DAVE TAMAYO: Director Rose.
BOARD MEMBER BRANDON ROSE: I have a question. I think it's probably directed to Jennifer. I would be curious to hear a little commentary on how do our recent rate increases compare to inflation to the last two years?
JENNIFER DAVIDSON: So we actually, the last two years, have lagged inflation. In 2018 and 2019, residential commercial -- residential customers have 1 1/2 percent and then 0 percent, and the commercial customers over that same period had 1 percent and 1 percent.
And so those are lagging inflation, and because

of that we actually are under some pressure, and I talked -- I gave an example of the continuing cost pressure, and so that actually is why we are also looking for rate increases in the mid 4s, because that is almost like a catch-up because we did not collect rates equal to inflation. We were less at inflation in the last two years.

BOARD MEMBER DAVE TAMAYO: Anything else?

CEO ARLEN ORCHARD: Could I hit one thing on the -- one other point on the CPI issue is we're actually seeing parts of our business where we're seeing costs come in above CPI, and that is construction costs, essentially. Obviously, there's a lot of construction happening in the state, and we're seeing our costs grow pretty dramatically. I sent the board earlier today some information about the Station E downtown. It's a bulk substation, the bid has come in $16 million higher than we anticipated, and those costs, four that we estimated, were based on a substation that we just built last -- or we just went out to bid for last year.

So in just about 12 months, 12 to 18 months, we're seeing a $16 million bump, and we don't see that declining in the future. Vegetation management is another one we're anticipating over the next couple of years, about a $3 million increase in vegetation management costs over just in the next couple of years. So we're seeing things actually be higher than what you'd expect in inflation.

BOARD MEMBER DAVE TAMAYO: Director Bui-Thompson.

BOARD MEMBER NANCY BUI-THOMPSON: So can you put up the rate proposal I had suggested in your alternative?

So I had proposed an alternative. So this time around I would say that I received much more either email or correspondence or Next Door flare-ups than I have in the past.

And so when I asked people, I asked about, you know, what is -- what is acceptable or what's palpable? And I think a lot of the feedback I received is there's something about, you know, higher chunks, and, you know, in shorter periods of time.

So the rate proposal, I think I kind of remember how you re-jiggered my proposal is, like, three and a half and then -- okay.

So how, if we were to look at an alternative which would break out the rates but essentially give us almost the same revenue stream, how -- how would that impact either, like, billing, would it -- would it create more technical issues? Is it just changing a line item in a database code? How difficult would it be to implement this rather than your straight two -- two-tiered approach? I just want to understand the complexity if we were to go the smaller increases route. Because I think a 1 1/2 percent or 2 1/2 percent is a much more -- I mean, I don't think people would even notice those small changes, but I think a $5 change, I think that's quite noticeable.

CEO ARLEN ORCHARD: So I would say that, obviously, it requires a little more IT work when you think about each increase -- it's doable, I just checked with Steve, and he says it's completely doable to do this and it's not overly burdensome.

But, for example, every time you do a rate increase, you not only have to change all the billing tables, but then you have to go in and make changes to all of the tools we provide to our customers because it has to reflect that rate change.

So instead of doing that twice, we would do it roughly, I think it's four times. So there would be a level of effort associated with that, but it's certainly -- certainly doable.

BOARD MEMBER NANCY BUI-THOMPSON: It's not like we're digging into old COBOL code that takes thousands of hours.

CEO ARLEN ORCHARD: No, no, no.

BOARD MEMBER NANCY BUI-THOMPSON: Okay.

CEO ARLEN ORCHARD: So there's a level of effort, but Steve's telling me it's not from an IT stand -- IT lift, it's not -- it's doable.

BOARD MEMBER NANCY BUI-THOMPSON: So I didn't see -- I think in the past, and maybe I missed it, I'm sorry, I'm very busy. In the past we've received almost like a summary or some rate suggestions besides what Mr. G[redacted] and Mr. -- did we get any feedback? I mean, all that I saw mostly was we don't like the increases, which I get that. But did we get any --

CEO ARLEN ORCHARD: We did not get any other alternatives proposed by the public in this, other than what we've heard tonight.

BOARD MEMBER NANCY BUI-THOMPSON: Okay. So just to clarify, so if we were to break up the increases to smaller lower percentages, we would essentially get close to what we had --

CEO ARLEN ORCHARD: Yeah. I think that's within a margin of error, quite frankly, from a revenue requirement standpoint. And, just to be clear, what it does -- what it would change would be the cumulative increase, but that cumulative increase over that two-year period would relieve some of the rate pressures we're expecting to see in the 2021 process.

So, as Jennifer said, right now we're looking at, we think, 4 to 4 1/2, just based on what we know today in 2021. We would be able to reduce that something down to, you know, sub 3.

BOARD MEMBER DAVE TAMAYO: Okay. Director Herber.

BOARD MEMBER ROSANNA HERBER: Yeah. I just had a question maybe for Jennifer or anybody in the rate area. It was suggested tonight that we should have a tiered rate, and SMUD doesn't have a tiered rate.

Could you explain why staff doesn't think that that's the way to go?

JENNIFER DAVIDSON: Sure. We believe that one of the keys to a low carbon future is electrification, and so we think it's not important -- it's less important now kind of how much we use, but it's more important, first of all, when you're using it, so that's number one.

And then number two, we really want to encourage use during certain times, and then we especially don't want to create any sort of breaks that we don't want people to say, "Well, I'm down in this lower tier, I don't want to use more electricity and go into the higher tier and prevent them from investing in electrification."

So again, this idea about we want to make sure that customers are using energy at the right time, that's more important, it's less important how much. And we want to make sure that we don't create any artificial or real barriers to electrification. And so that is why we think, especially with the new commercial restructure, the new daytime supersaver rate is an example of where we're really trying to encourage electrification of both the building stock and the transportation sector.

CEO ARLEN ORCHARD: So -- and I would add just one other thing. SMUD used to have tiered rates, and we purposely moved away from tiered rates over a series of years. We flattened our rates in order to prepare our customers for time of day rates. Time of day is actually the favored policy within the State of California. We led the way and we'd gone first, but the investor-owned utilities are all moving into time of day rates just about a year or so later than we are.

And again, it really is trying to capture the higher cost of energy, and, as you know, during that higher cost of energy period we're using less renewables and more carbon intensives. So it's also trying to capture -- there are some -- there are some environmental costs associated with that time period also.

BOARD MEMBER ROSANNA HERBER: Thank you.

JENNIFER DAVIDSON: One other point I might make is that we also want to make sure that we can keep rates easy to understand, and so we think it becomes really complex and hard for the customers if we were doing a combination of both time of day rates and tiered rates. It's just a level of complexity that is not a clear price signal.

BOARD MEMBER ROSANNA HERBER: Okay. Thank you. One other quick question on the table that you gave us to show, like, the increases. I'm not sure which -- which slide it was, but it -- it talked about the 4.5 percent and the 4.75 and how that would -- let's see. Keep going, keep going. The -- the actual increases. There.

JENNIFER DAVIDSON: Okay.

BOARD MEMBER ROSANNA HERBER: What I'm wondering about this, this is for the, you know, the rate increase for '20 and '21. Does -- does this also speak to the -- the eight-year transition that we're doing for the small and the very small customers?

JENNIFER DAVIDSON: This is the rate increase only. So as the commercial customers transition, some will see an impact where their bill will go up greater than this, and some will see an impact where their bill will go down less.

BOARD MEMBER ROSANNA HERBER: Uh-huh. Okay. All right. Well, I -- I just want to say for me I really appreciate all of the work that staff has done. It's been -- it's been a little overwhelming to try to get your hands and arms around everything that is changing. I do believe that the proposal that Director Bui-Thompson is putting out there to try to give more space between the increases, especially for the commercial customers, is important.

You know, from what I can tell, we -- we -- we have things that we have to pay for. We can't get around fire mitigation. We have to have the ability for peak demand, the technology that we're going to purchase is going to give us more tools, and, you know, our carbon reduction program is very important to all of us.

So I guess I want to express support for the option that would slowly increase the commercial customer rate as suggested by Bui-Thompson.

BOARD MEMBER DAVE TAMAYO: Okay. I did have an additional request from Jack Freeman in the audience who would like to ask a question during the public hearing portion of the agenda.

JACK FREEMAN: Thank you much. My name is Jack Freeman, F-r-e-e-m-a-n.

It's just that last slide that you had up there and several others. It's been rather complex trying to balance back and forth and issue balance between commercial, residential, combined, and all that. That last slide that you had up there that had the alternative plan on there, did that apply to residential or to business or both? And if you could get some kind of clarification on these things when they're being presented, it would really help clarify and stop the confusion going on out here. Thank you.

BOARD MEMBER DAVE TAMAYO: Jennifer, would you care to clarify that, please.

JENNIFER DAVIDSON: Thank you for the chance to clarify. The rate increase is applied to all customers, and it would be applied to all components of the bill. And then the commercial restructure applies to only commercial customers, and it's an independent -- the two are independent of each other.

BOARD MEMBER DAVE TAMAYO: Director Sanborn.

BOARD MEMBER HEIDI SANBORN: Sorry. I'm still confused. So this chart is for both residential and commercial?

JENNIFER DAVIDSON: That is correct. Because the commercial restructure is revenue neutral. It's not designed to --

BOARD MEMBER HEIDI SANBORN: That's what I thought.

JENNIFER DAVIDSON: -- collect any more revenue, but this is the rate increase is to increase revenue and will be applying that to all customers, both residential and commercial, and again, to all bill components, and then the -- but then the rate restructure is going on, and actually I should clarify. While we're doing the rate restructure, the demand charges will not have the rate increase applied to it.

BOARD MEMBER HEIDI SANBORN: Okay. So there's three options there. So can I clarify what is being proposed as the preferred alternative?

BOARD MEMBER DAVE TAMAYO: We're going to have discussion.

BOARD MEMBER HEIDI SANBORN: Okay.

BOARD MEMBER DAVE TAMAYO: And during our discussion calendar we're going to introduce the draft rate resolution, and then we'll have discussion about what our preferences are. I think that really the purpose of this right now is to ask questions for the public to comment on the proposal and for us to ask questions about it, but it's not really intended to do -- to have our discussion, and that will be in a little bit after we close the public hearing, so...

BOARD MEMBER NANCY BUI-THOMPSON: I was explaining it to -- that's what I was going to say. Thanks.

BOARD MEMBER DAVE TAMAYO: All right. Did we have other questions?

BOARD MEMBER BRANDON ROSE: I was just going to say as we're looking at these alternative rate options, right, the staff proposal has a cumulative rate increase of 9 1/2 percent, initial revenue of 193 million, but some of the other options have total increases of 13.7 percent or 11.7 percent. So the total increase is more, but the additional revenue is less. And so it's all about just what time you implement and how it compounds.

But I also think it's interesting is everybody is so used to hearing spin -- political spin, it is like the real world, "Hey, this rate increases more but yet it is going to pull more money or less money out of people's pockets," right, like in terms of revenue that comes into SMUD to keep it running.

So I think it's just really interesting. It's sort of a challenging situation if we spread this out, the rate increase on paper is more, but yet everybody ends up spending less. Yeah, it's interesting. So I just wanted to point that out as we go through this.

BOARD MEMBER DAVE TAMAYO: Any -- any other questions from the board? All right.

Director Fishman, go ahead.

BOARD MEMBER GREGG FISHMAN: Arlen, there's one more thing I want you to kind of run through for us, and that's we're also looking at some ways to increase our revenue through non-rate sources.

CEO ARLEN ORCHARD: Correct.

BOARD MEMBER GREGG FISHMAN: Can you talk about, again, what we've already done and what we hope to see in the future? But again, without counting our chickens before they hatch.

CEO ARLEN ORCHARD: Sure. We are looking at how do we diversify our revenues so that we're collecting revenues other than just from electricity sales to our customers. So we're looking at a whole number of opportunities to do that. And since we're a not-for-profit and community-owned utility, any additional revenues that we capture from other business lines come back to support SMUD's operations and ultimately result in less rate pressure on our customers going forward.

So one big example is we've joined the Energy Imbalance Market. So that market will allow us to better optimize our generation fleet and take advantage of that market, and we expect to see revenue associated with that flowing back to SMUD. We expect it to take about two years to pay off our investment in joining that market, and that's a technology investment, and then we'll see additional revenues associated with that.

So we're looking for more market opportunities in the wholesale energy market to take advantage of. We're also looking at where can we leverage SMUD's expertise to provide services to others. So probably the best example of that is Community Choice Aggregation. We're currently providing services to the Yolo County CCA and the Alameda County CCA, and also looking at expanding those services to other CCAs. That's about 600,000 customers that we're providing service to.

Right now we're early in that business, so we have not recovered our initial investment. But if you just take our operating costs on an annual basis of that new business line versus the revenues we're seeing, we're seeing about a $600,000 positive net revenue flow.

Our Sacramento Power Academy is our training facility. That's run by Frankie and his team. That is a training facility that we used to only use -- utilize to train our own -- our own field forces. We've realized that we do that really well and it's an underutilized asset, so we've partnered with the IBW and others to create a training facility that will provide training to other utilities as well as potential folks in the community who are interested in working for utilities, and that includes telecommunication companies. That's just getting started.

We are also getting some state and federal funds associated with running those apprentice programs. That's another example.

And then we -- our intellectual property is something that we do a lot of co-development with small companies, and even large companies, to help refine their products to help provide solutions that we need for our operations or for our customers.

In the old way of doing business, we would work on that and we wouldn't see any return for our -- from our customers on that, other than we'd get the solution, but they may go off and sell that to a whole bunch of different folks and make money on that -- on that.

So we've -- we're now entering into deals with companies where we will co-develop a new technology. And then as that technology is sold to other utilities, we get a return on revenue associated with those sales.

Probably the biggest one we're doing is with OSI right now, Open Systems International. They -- we contracted with them to install our Advanced Distribution Management System. That is a very important piece of technology that will help provide more visibility and better management of our distribution system.

The next generation of technology that needs to be developed is called the distributed -- distributed -- I can't even say it, it's getting late. DERMS, and that is to better integrate things like solar, batteries, and so we're co-developing that new generation. We'll actually help sell and market that, and when those sales happen, those moneys will flow back to SMUD.

All of this is very early in the evolution of SMUD and our business model, but it's examples of how we're trying to think differently and creatively and use innovation to collect more revenue so we have to go

out to our customers for increases at a lower level in
the future.
BOARD MEMBER GREGG FISHMAN: Thank you.
BOARD MEMBER DAVE TAMAYO: Okay. So --
BOARD MEMBER BRANDON ROSE: Do we have more
public comment or --
BOARD MEMBER DAVE TAMAYO: No, we don't.
BOARD MEMBER BRANDON ROSE: Can I -- ask one
more question --
BOARD MEMBER DAVE TAMAYO: Sure.
BOARD MEMBER BRANDON ROSE: -- alternative rate
increase options.
It's pretty small from back here. Under
Option -- under Option 2 and Option 3, we have this
3.75 percent and 3 1/2 percent, and it jumps to 1 1/2
and then 2 1/2 percent. Is there a logic behind not
having just a straight sort of linear reduction over
time? Like, so, let's say they would go from 3.75 to 3
1/2 to, like, say, 2, and then like 1 1/2, something
like that? Or is it constructed this way with a little
back-end bump on purpose?
JENNIFER DAVIDSON: So I think the -- the bigger
need, you can see is that the 2020, and so that's why
we have to have the higher in the mid 3s in 2020, and
that, again, is back to the point that you raised is

that we haven't had a rate increase equal to CPI for the last two years, so we're under pressure, and so we're not able -- we're skipping the bottom for our ratios which are really important in the markets as we go to, you know, borrow and be able to get cost effective borrowing.

But then when you get into 2021, I think we were trying to show that you've got, you know, plus or minus, you know, .5's mobility to move those numbers around a bit, so you could see we pick 3 for Option 2, a little bit earlier, and 3.5, and it leads you to 1.5 in an Option 3, you're down 50 basis points, and then you have to be up 50 basis points the following one. They're three months apart, so we were just trying to show a little bit of flexibility to the board.

BOARD MEMBER NANCY BUI-THOMPSON: So to Brandon's comment. I mean, just -- people usually like either like a gradual up or a gradual down. Would it -- would it be a huge inconvenience to flip flop October 2021 and January 2020 so that it's like a gradual decrease in rates? So, basically, like Option 3 -- oh, no. Option 3 doesn't do it either. So basically flip flopping, so it's more of a linear downward.

JENNIFER DAVIDSON: And so you could do Option

3, it could be, you know, slightly less in October of 2021, so it's going down from 3 and 3 1/4 to 3, you know.

CEO ARLEN ORCHARD: So I think -- let me just try to capture, I think, what Director Bui-Thompson is saying. Is having a reduction or a lower increase each time. So you start with the higher reduction in January 2020, so let's use Option 3 as an example. So you would have 3.75, you drop to 3 in 2020, you might go to -- I'll make it up -- 2 1/2 in 20 -- in January of '21, and that might mean you only need 1.75 or something in 2021.

JENNIFER DAVIDSON: Yes.

CEO ARLEN ORCHARD: Or 2 percent, however the numbers work out.

JENNIFER DAVIDSON: Right. So you could easily flip the January 2021 and make it 2 1/2, and then 2 percent for October of 2021 to have that nice linear scale down.

BOARD MEMBER DAVE TAMAYO: Are we going to be able to accommodate that kind of change within the process that we have before us?

CEO ARLEN ORCHARD: Yeah, yes. I believe we can modify. We could -- we could do that flip under Option 3. It would change the cumulative a little tiny bit

but not a whole lot.
JENNIFER DAVIDSON: All right. You would actually be collecting a little bit more revenue, you'd be a little bit greater cumulative increase. But again, what that would mean is it would take a little bit even -- a little bit less pressure in 2022. So the good effect would carry through to 2022.
BOARD MEMBER NANCY BUI-THOMPSON: So if we did this gradual decrease, it could help us in 2022 of not having such a high increase?
JENNIFER DAVIDSON: Absolutely, correct.
BOARD MEMBER DAVE TAMAYO: And any other questions? If we don't have any other questions from the board -- go ahead.
BOARD MEMBER ROSANNA HERBER: I'm sorry, I just got to see this tonight, and so it's still -- it's still kind of new to me. I guess what I'm wondering is we were looking at a 9 1/2 increase, now we're looking at basically 11.7, and I guess that's with the understanding that there won't be a rate increase in 2022?
CEO ARLEN ORCHARD: No, no. I think what it is is -- so, first of all, the options have been designed, setting aside Option 1, which we can't do because it deals with a rate increase in '22, so we're really

looking at the staff proposal Option 2 or Option 3, is we designed it to kind of spread out the rate increases but capture roughly the same amount of revenue so we could address the things that we need to spend money on.

Because you have a greater cumulative increase over in Option 2 or Option 3 over that period of time, because it's about timing, and when you start to collect revenue, what that means is we've been -- I think we've told the board that based on current day projections, we're at maybe 4 to 4 1/2 percent in 2022. Because you have a higher cumulative during this rate process instead of us coming back to the board with 4 to 4 1/2 percent, we'd be coming back with more like 2 to 2 1/2 percent increase in 2022. So you'd actually see a lower rate increase in '22 over what we think we need today based on this -- this option. Does that help?

BOARD MEMBER ROSANNA HERBER: Yeah. Now I understand, but you're anticipating that in 2022 we're looking at another 4 1/2?

CEO ARLEN ORCHARD: Yeah.

BOARD MEMBER ROSANNA HERBER: So by going down this chart, we might end up having to raise the rates less?

CEO ARLEN ORCHARD: A little less in 2022.

BOARD MEMBER ROSANNA HERBER: Okay. Thank you.

BOARD MEMBER DAVE TAMAYO: All right. Do we have any more questions at this point? Keep in mind we will have room for discussion between the options.

Okay. So with that being said, I'm going to go ahead, unless Laura says otherwise, I'm going to close the public hearing on this item. And she is nodding, so the public hearing is closed.

(The public meeting adjourned at 7:45 p.m.)

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REPORTER'S CERTIFICATE

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STATE OF CALIFORNIA)
) ss.
COUNTY OF SACRAMENTO)

I, THRESHA SPENCER, a Certified Shorthand Reporter in and for the State of California, duly commissioned and a disinterested person, certify:

That the foregoing transcript was taken before me at the time and place herein set forth;

That the statements of all parties made at the time of the proceeding were recorded stenographically by me to the best of my ability and thereafter transcribed into typewriting;

That the foregoing transcript is a record of the statements of all parties made at the time of the proceeding.

IN WITNESS WHEREOF, I subscribe my name on this 13th day of June, 2019.

Thresha Spencer

THRESHA SPENCER, CSR No. 11788
Certified Shorthand Reporter
in and for the
County of Sacramento,
State of California

Ref No: 19117 JS

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