

Crystal Richardson:

Okay, good morning. Thank you for allowing us to be here with you today. My name is Crystal Richardson. I'm a member of our community relations team here at SMUD. I'm joined today by some colleagues and subject matter experts from SMUD as well. We're here to have a conversation with you today about a rate change proposal that our board of directors will vote on later this year. I want to note that this proposal has not yet been approved by our board.

Whenever there's a rate proposal, we reach out to the community to make sure that we can engage in an open and transparent process that allows for public input and discussion as part of our process. We're here today to share this information with you and also receive your feedback. This presentation includes a broad overview of the proposal and time for some specific questions and comments at the end. So please hold your questions or comments until then.

Before we get into the details, I'd like to go over a few housekeeping items. For those who are joining with us in person, you see on the screen in the event of emergency, please note the emergency exits. If you're in the room, the exits are noted behind you. And please, in the case of an emergency, please be sure to find your nearest exit and vacate the building.

All right, so today we have about 90 minutes for today's workshop. That will include 30 minutes for our presentation and about 30 minutes each for moderated virtual comments and questions and also in-person comments and questions. So this meeting is being recorded and will be transcribed. For our virtual attendees, you can submit questions through our virtual Q&A box that you see at the bottom of your screen, and those will be available post-meeting listed on our smud.org/rateinfo website. Questions can be typed in that Q&A box. Comments or statements that are placed in that box will not be addressed during today's meeting. The moderator, myself, will read the questions and invite a team member to answer that question. All questions need to be relevant to the proposals in this rate process.

For our in-person attendees, if you pre-registered to speak, we will call you to the podium at that portion of the program. If you have not yet pre-registered, there's a clipboard in the back of the room where you can sign up. We will have a three-minute limit per person for any questions or comments they want to make related to the rate proposal.

If we run out of time during today's meetings and you have additional comments or questions, those can be submitted via email to contactus@smud.org or you can share your comments or questions at a future public workshop or the public hearing.

Today, we're joined by a few SMUD representatives. Scott Martin is a seasoned utility industry expert and serves as SMUD's chief strategy officer. Scott is responsible for looking holistically at all strategies across SMUD and prioritizing efforts to achieve SMUD's ambitious goal of eliminating all carbon emissions from its power supply by 2030. He's been with SMUD for 21 years. Alcides Hernandez is the revenue strategy manager and has worked for SMUD for 12 years. And Melissa Kwong is supervisor of the pricing department and has also worked for SMUD for 12 years.

At this time, I'd like to invite Scott Martin to the podium to do a quick welcome.

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Scott Martin:

Good morning. I am Scott Martin, Chief Strategy Officer. I think I just got aged there. 21 years. Yes, I've been here for that long. And yeah, I got a little gray hair, I guess to show for it over that time. But I'm grateful for everybody that is attending this morning. We know it's a challenge to be here at 10:00 AM

on a weekday, so very much appreciate those of you who are willing to take some time out of your very busy schedules to be with us.

SMUD is a not-for-profit, community-owned utility, so we really take seriously our public outreach. This is our first public workshop in this rate process, but we have many, many other ways that we outreach to our community. We do many public meetings with community groups and organizations and outreach to those community groups and organizations to do personalized presentations to them as part of this process in addition to these official public workshops that we do. And this is the first of our public workshops. We'll have another public workshop that we'll do later in the process, and of course we'll have a couple of more board meetings that we'll do.

We encourage everybody to participate, to provide us your feedback. We look forward to your feedback, your ideas and thoughts about our rate process, and we're happy to engage with you if you have any questions or thoughts that require a staff response, we're happy to engage with you and have a discussion around the material in this rate process.

I think you're going to hear a lot of detail or more detail from Alcides Hernandez, who is our revenue strategy manager, about this rate process. But I wanted to just very quickly cover a couple of aspects of it.

First, we're asking for 2.75% increases in our rates for four times over the next two years, so that'd be January and May over the next two years. And you might be asking, "Well, why do we need these increases?" If I have to boil it all down and make it simple as to why we need these increases, it's really a couple of key reasons.

First is, we're making big investments in our system and in our infrastructure to ensure the reliability of our system, especially as our loads change and we have new electrification being added to our system. We want to make sure that our system is resilient and prepared for the future.

And in addition to that, we are making big investments to increase our renewable power supply. We have state mandates that are increasing from 33% in 2020 to 44% in 2024, and then to 52% of our sales need to be renewable by 2027, and then 60% of our sales need to be supplied by renewable energy by 2030. So it's a very significant increase in our state required renewable energy supply, and that requires a lot of new investments to meet those mandates.

So, I think Alcides is going to be covering more of this information and providing more detail on it, and I'll probably turn the time over to him, and look forward to the discussion and any questions that might come. Thank you.

Alcides Hernandez:

Thanks, Scott and Crystal for organizing this first workshop. Good morning everybody. My name is Alcides Hernandez, Revenue Strategy Manager. Thank you for joining this first workshop.

Let me start by sharing with you high level overview about SMUD. If you're new to our service territory, know that we are community owned. We have been providing service for over 75 years and we are governed by an elected board of directors. They lead and serve in the areas that they represent, and they are very interested in your feedback about this process.

They will be voting on this recommendation later in September, so please, if you are virtually, feel free to add comments in the chat, in the box where you can put your comments, questions. If you're in person here, please feel free to participate and ask us questions or comments.

It is our priority to keep rates low, provide safe and reliable service, and develop programs and services that help you manage the energy use, protect the environment, and benefit the community.

Today, just to let you know, we are one of the cleanest electric utilities in the nation. And as Scott just mentioned, we are committed to eliminating 100% of the greenhouse gas emissions from our power supply by 2030. Also, if you want to know more about that, please join the chart. You can find more details about this journey, visit the cleanpowercity.org to find more details.

I'm going to dive a little bit more of why we're here today. Crystal mentioned that it is our policy to communicate actively with our customers every time we have a key business decision that we know may affect individual customers and the whole community as a whole. This recommendation is one of them. And every time we have a right process like this,

Alcides Hernandez:

We reach out to the community to make sure that we engage in this open and transparent process that allow us for public comments and feedback that can shake the recommendation. Today I'm going to walk through more details from what Scott just provided and address any questions the best we can and take note from this workshop so we can provide that feedback to our board members in part of the process.

Here in summary, the three proposals that we have before the board, and they will make this decision in the month of September. They are grouped in three categories. The first one is a recommendation to increase all rates in year 2024 and 2025. I will provide more details on the specifics. As Scott mentioned, it's 2.75% four times, effective in May and January of the year in '24 and '25.

I just wanted to let the audience know and the community that before coming to you to discuss a rate proposal, we do heavy lifting in finding cost savings and looking at our budget very closely to ensure that the rate recommendation will have as little financial impact to you as possible, and this recommendation does that. Also, our proposal includes additional discount for our most vulnerable customers and I will provide details when I get that part of the presentation. And finally, every time we come to this public processes, we take the opportunity to do some cleanup and do some miscellaneous edits or changes to certain tariffs, and we are doing that in this rate process as well.

Now, rate increases we know are not easy and it's difficult to ask to come here before you and request that, but we want to make sure that we are transparent about why we are proposing these rate increases. As many of you know, the current state of the economy has created challenges for everyone, including SMUD due to increases in our compliance requirements as well as cost increases in goods, services, energy prices and all these changes have created and put pressure on rates. Specifically, we see cost pressures in the following areas. You see them highlighted on the screen related to the infrastructure and reliability to improve our agreed compliance to meet state mandates, vegetation management, wildfire insurance and outage response for severe weather and inflation and supply chain issues.

Maintaining our world-class reliability is one of the cornerstones of our mission. We continue to invest to ensure that we can provide you safe and reliable energy and here a few areas where we're seeing cost increases. Building energy infrastructure requires large investments and we see investments in the range of \$370 million toward key projects. Some of those are summarized here on the slides for you. Those include generation projects, storage, capital related project, Solano 4 Wind Turbine Project, and several solar and storage projects and long duration energy storage projects. Also in order to meet our state renewal portfolio standard requirements, when investing in more clean energy resources, and that has an impact of approximately \$85 million per year. This includes more renewable resources like wind, solar, geothermal, hydropower, battery storage, and biogas.

Now, wildfire risk continues to grow in California and we continue to invest in vegetation management to help reduce the risk of fires. Additionally, wildfire insurance has continued to go up exponentially, and

as you may have probably seen in your own home insurance, severe weather events are becoming common. You may remember the event we had last year. So we're investing to improve our reliability and visibility into outage responses to severe winter storms. So we see increases spending in the range of \$10 million. This is incremental cost from what we had already today to prevent and mitigate wildfires. Our customers in the community are the key for creating a carbon-free future. So we're also investing about \$15 million in customer programs and those will be in the form of incentivizing electric vehicles, more rooftop solar, battery storage, electrification of homes and businesses. This will ensure that no one will be left behind in this transition and will improve our air quality for all our region.

We mentioned cost pressure driven by inflationary situations across all the spending. We have seen that most of us in our personal finances, SMUD is not different. We've seen sharp increases in cost of materials, services and labor that we use in regular daily activities and work that we do. So we are experiencing issues. We are getting, for example, certain products in more time, you need more weeks to get here. The global supplying issue still a situation for us that we're facing and it's unknown when this is going to disappear. So all of that has resulted in a higher cost in much longer lead time for key materials that we use and bring here for our needs.

In summary, all of this has created an impact of about \$25 million that we need to cover, and part of this rate increase will cover that. Some examples of those items that we have seen significant increase includes distribution substation transformers. We have seen up to 72% since 2019 and lead times of 80 plus weeks, 24% increasing cost of wood and steel poles, and 40 or so percent increasing cost of line transformers and station equipment since 2019. All this equipment is virally critical to keep the lights on and provide a reliable service.

Now to keep the proposed rate increases as low as possible. We focus on incorporating operational and efficiencies and savings into all that that we do. More than ever, we are working to create a permanent cost reduction, looking at the budget very closely and operational efficiencies. Just to illustrate an example, recently we have saved in the neighborhood of \$60 million from one time projects or events that we have tackled plus ongoing permanent operational costs that add up to that amount. And just to give you more specific, those includes refunding bonds, taking advantage of low interest rate when we could, also recovery of costs from the Department of Energy related to our [inaudible 00:17:53] fuel storage. And to cite one more, the sale of our loan portfolio to a local bank and reduction of SMUD costs to manage that portfolio without impact to our loan customers.

Those are examples that I can just cite to you that represent part of that \$60 million. In addition to that, we have also partnered with local agencies, which has enabled some projects to get grant funding for their projects such as for neighborhood electrification. So some of those we see grant applications, we continue to submit those. We have several pending, which will help future rate pressures. May not help us right now, but definitely is going to help us in the long run and it will be very, very valuable help for us and the community.

Now here is the specifics of the rate increase recommendation. Scott mentioned that we are recommending four rate increases of 2.75% that will be effective in January 1st, 2024. Similar rate increase in May of 2024, January 1st, 2025, and May 1st, 2025. These four rate increases are needed to meet a number of objectives, including financial targets and also all the calls that we just described early in the presentation and as Scott also mentioned in the introduction.

To give you an overview of the impact, this illustrates that the average residential customer currently pays about \$131. They will see an increase in the range of \$3.60, no more than \$4 per every time we have the rate increase. So for a cumulative annual impact once the full rate increases are in place of about \$15. This, just to give you an illustration of what that will do to customer's bills. Similarly,

Alcides Hernandez:

... we have the rate increase that will apply to all non-residential customers, those include agricultural, and commercial, and industrial customers. They also will see the 2.75% on all electric components, that will be the energy, demand charges, system [inaudible 00:20:18]. And here is an illustration of the billing impacts for that group of customers. I'm just going to point out one of them. The first row, you see the small commercial customers, those are very small offices, small stores. The average bill represents about \$194, in the neighborhood of 200. They will see an average impact per each of the rate increases in the neighborhood of \$5, no more than \$6, with accumulative increase of 22.25 after the full rate increases are into effect.

And you can see the rest of the impacts of the other commercial categories. They vary. The larger ones consume significant amount of power, so the electric bill also represents that. Now, we have rate increases, and every time when we do that, we have the commitment to balance rates to keep them affordable, and also making sure that we maintain financial viability, meet our board strategic directions, achieve state reliability targets, and continue to provide safe, reliable, and affordable power. The proposed rate increases support our commitment to continue to provide rate increases that are within the rate of inflation. And you see here the trend on the chart, the bottom line, it represents the cumulative rate increases since 2021, it will end up being about 20.7%, including the proposed rate increases in '24 and in 2025.

And the second line above that, it represents the consumer price index known as an inflation, or CPI. That shows the trajectory from '21 to 2023, and the projection to 2025. Even with that, our proposed rate increases will remain below the rate of inflation. Now, we are committed to keeping our rates as low as possible, and just to provide an overview, this chart compares something that we call average rates per KWH, or per kilowatt-hour. What that represents is the entire volume of revenue that we collect from all the rate components divided by the energy that we sell. It is a very typical benchmark using the industry to compare utilities. Ours is represented by the orange bar toward the bottom. Our rates shows that we have very low rates compared to the other utilities seen in the chart. This is for year 2022.

Similarly, here's an overview of other utilities non-rate increases from 2022 through 2024. We're not alone in this, many utilities in our state are facing the same situation. You can see the trend and amount, and just to let you know, we only included information that we could find available. Difficult to find information for year 2025, so we only included, in this chart, the rate increases from '22 to 2024. But with that, you can see our rate increase is modest compared to others on the right side of the chart.

Now, we mentioned earlier that we have a proposal to increase the benefits, or the discount for our most vulnerable customers, and I'm going to describe you that recommendation here. The proposal that we have, it recognizes that our energy assistance program rate customers, we call them EAPR customers, are strongly impacted by rate increases, especially those who are in the zero to 50% of the federal poverty level. We use the acronym of FPL for that, and I make reference to that in the presentation. We look at these customers and the electric bill burden. We represent the electric bill burden, it is a measurement of how affordable is the bill for this community, or for these customers.

And in looking at that, we observed that this group in particular, the zero to 50% of the federal poverty level, has an unusual high electric bill burden. The share of their income as a percentage, and the amount that they need to pay the electric bill is higher, which means for that group of customers, it's less affordable compared to the rest. That's why we are recommending additional benefits to this group of customers. To help them mitigate part of the rate increase, we're proposing an extra benefit of up to \$35 per month, so the total available discount for this group of customers will change from \$70 up to \$105 per month. The financial impact of this recommendation is expected to be about \$2 million per

year. We plan to fund that amount with non-rate revenue. All EAPR customers will continue to receive the discount, keeping electric service affordable for low-income customers.

Now, I also wanted to share that SMUD has many offerings to help our customers continue to save both electricity and money. We offer appliance rebates, incentives, and financing, free home electrification and weatherization for low-income customers, and other programs and services designed to help customers manage their energy use, and reduce their electric bill. We also offer additional tools, for example, My Energy tools online, they provide the benefit that customers can see in basically almost real-time when their bill has been posted, how much energy they're using, and also the cost once the billing cycle has been completed. It's very useful for them to control their bill. You can see more details on the screen, and find more information about all these programs and services that we offer on smud.org.

Now, I'm heading to the end of the presentation. This part summarizes a few of the miscellaneous proposed changes that we are including to our rates, rules and regulations. So we're proposing a couple of things, and those includes aligning SMUD rates holidays to federal holidays. For those who are unfamiliar with rate holidays, those are the days when SMUD charges the cheapest electricity rates to customers, to provide that benefit, and encourage electrification. We're proposing to align our rate holidays, and again, that means we are actually adding Juneteenth as a new holiday, a rate holiday in the rates. We're proposing to clarify language stating that the standby service charge applies only to certain situations, and those includes, for example, large manufacturers or large industries that they have their own generators to provide their own power, they only use SMUD as a backup service.

We're also adjusting our hydro generation formula. We're not making changes to the formula itself, but we're adding the Western Area Power Administration's hydro generation to be part of the same tariff. And also in doing that, we're updating the measurement station and associated calculations, so that has no immediate impact, and also makes the tariff a little bit cleaner. Other rate changes includes removing legacy rates. Every time we do change rates, we tend to keep all rates for the purposes of rate transitions. At some point, we need to do that cleanup, and that's what we're doing at this time. And also looking at residential and commercial tariffs for other miscellaneous changes, including for example, some updates to the campus billing tariff. We have a full general manager's report available online, it provides details of the rate recommendations, so we encourage customers to go and visit smud.org/rateinfo for additional details. And that concludes my part of the presentation. Crystal, I think you will take it from here.

Crystal Richardson:

All right, thank you, Alcides, for that wonderful presentation. Just as a reminder, we're reaching the point in the presentation where we will address virtual questions or statements that have been directly related to the rate process that had been submitted through the Q&A box at the bottom of your screen if you're with us virtually. Give a moment to take a quick check to see if we have anything in the queue. We'll go ahead and jump over to in-person public comment.

Crystal Richardson:

If you have additional questions and you're with us online, again, please quickly submit those into the Q&A box at the bottom of your screen. At this time, we move into our in-person Q&A or public comment, and we don't have any customers interested in making a statement or asking a question at this time.

To allow for a little additional time for our virtual guests to submit questions, I'm going to go ahead and move on to some of our closing slides. So what happens next? You're with us today for our first public

workshop, again, both virtual and in person here at the SMUD Auditorium. We will have two total public workshops and also a public hearing, and then our final decision will be made by the board of directors at the board meeting on September 21st. These are all public meetings and you are welcome to attend and comment.

If you would like more information, there are a number of resources available to you. You can visit our website at smud.org/rateinfo where you can read the CEO and general manager's report. If you have questions or comments after today, we encourage you to email us at contactus@smud.org or give us a call at the number you see on the slide. Please also check out information on the website for energy efficiency tips and other programs and services. And again, we welcome your questions and comments throughout the outreach period.

So before we wrap up, I'm going to go ahead and go back to check if we have any virtual questions or comments. Just one moment please while we check what's coming in. Okay, so to our panel of experts, we did have one question come in. The question is, can you please describe the 2022 rate study methodology, if that's something you can speak to? Alcides will be joining us at the podium.

Alcides Hernandez:

Good morning. I wish I could have more details about what the customer makes reference to the 2022 study. Just to be more specific, we do have a number of documents and research, so it's pretty difficult to know exactly what the customer is asking for. We have budget documents, we have research, load forecasting and things like that. But I will say that we use that kind of information to support any rate recommendation that we bring to the board. In fact, budget information has been used in this recommendation, load projections that we have also have been used in this recommendation, and any cost analysis that is needed to support this is done. So I wish I could have more details, Crystal, about that to know exactly what report, but I hope this helps.

Crystal Richardson:

So I don't know if it helps Alcides, but there's some additional comments from the customer. They said specifically they're looking for conclusions. Those that are on page 76 of the GM report. So I don't know if the staff wants to take a moment. If you're with us virtually, please bear with us as we take a moment to pull up the GM report.

Alcides Hernandez:

Thank you Crystal for sharing the additional insight from the customer. On page 76 is referenced compliance. There are a number of items in there I presume is related to the cost justifies for BSM and services. We do have developed studies and things like that, so it makes reference to the 2022 rate study. We are making in this particular recommendation a general rate increase across all customer classes and across all the components. The rate increase will be 2.75% on every component of that. So that's the reference that I'm trying to... Thank you for letting me know about this specific patient report.

Crystal Richardson:

Okay, well, thank you. Just again, in summary, if you need more information, there's a bunch of resources available for you. If you weren't able to get your questions and comments in early in the meeting, again, we still want to hear from you, so please visit us at contactus@smud.org or call the number that you see on this slide. Again, we welcome your questions and comments related to this rate process throughout the outreach period, and we would love for you to join us at our next public workshop on August 3rd or at the public hearing on August 30th. And as a reminder, our final decision

for this proposal will be at the board meeting on September 21st. With that, we're going to go ahead and conclude our meeting and we hope to see you again soon. Thank you.