

Exhibit to Agenda Item #3, 4 & 5

3. Discuss authorization of the Chief Executive Officer and General Manager to approve the inclusion of SMUD's disclosure information (Appendix A) in the **Preliminary Official Statement** pursuant to the commodity prepay transaction with the **Northern California Energy Authority (NCEA)** as the bond issuer and execute the **Commodity Supply Agreement** and any other related documents necessary to facilitate this transaction.
4. Discuss approval of the issuance of **Northern California Energy Authority (NCEA) Commodity Prepay Bonds** and authorize the Chief Executive Officer and General Manager to execute documents necessary to complete the issuance of the bonds and various contracts related to the prepayment of the commodities.
5. Discuss approval of amendments to the **2024 Northern California Energy Authority (NCEA) Budget Resolution** to i) combine and relabel the Interest Expense and Bond Principal line items to the single line item Debt Service (Interest and Principal) and augment the line item by \$12,983,277 and ii) augment the Administrative & General line item by \$15 million.

Board Energy Resources & Customer Services Committee and Special SMUD Board of Directors Meeting

Tuesday, March 19, Immediately following the Finance & Audit Committee and Special SMUD Board of Directors Meeting scheduled to begin at 6:00 p.m.

SMUD Headquarters Building, Auditorium

What is a Prepay?

- 2003 IRS Regulations allow for tax-exempt debt to be issued for the prepayment of natural gas/electricity to serve load
- Commodity supply agreement where buyer commits to purchase the commodity over a term, receiving a discount to the market price
- Cost of funding is lower than supplier would otherwise receive borrowing from taxable market or from using internal funding at their cost of capital
- Bond investor risk is tied to supplier and corporate guarantor (not SMUD) to make debt service payments and redeem bonds if termination events occur or bankruptcy

Commodity Prepay Summary

- In 2018 Bonds were issued the Northern California Energy Authority (NCEA), to prepay for a 30-year supply of commodities
 - \$0.48/dekatherm discount = \$3 million annual commodity savings from 2019-2023
- The 2018 prepay bonds require repricing by July 2024
 - NCEA plans to issue up to \$800 million of similar bonds this spring for a 6-year term that optimizes the savings that SMUD receives
- Current pricing indicates SMUD will save \$3+ million annually on commodity costs from a \$0.50-0.55/dekatherm discount

Prepay Flexibility

Flexibility to support SMUD's Zero Carbon Plan

- Allows for a switch to renewables or biogas to align with resource plans or adapt to new technologies or regulatory changes
- Natural Gas is currently needed to support reliability and new technologies such as Carbon Capture and Sequestration (CCS)
- Reduces operating costs to help SMUD reach zero carbon by 2030
- Contractual provisions protect SMUD savings

NCEA Budget Augmentation

- The NCEA Board needs to approve an increase in the NCEA budget due to current bond pricing
- When the NCEA 2024 budget was developed and approved:
 - The debt service was based on existing bonds and the minimum savings amount
 - The Administrative and General Budget did not have the cost of issuance for this transaction included
- New Budget for approval:
 - Bond Principal & Interest Expense: \$46 million
 - Administrative & General: \$15 million
- **This does not raise commodity costs for SMUD and is solely an authorization to pay the new expenditures for NCEA. The expenses are included in calculating the net \$3+ million in annual savings to SMUD.**

Questions?