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

Date: Wednesday November 20, 2019
Time: Immediately following the Finance and Audit
Committee meeting, scheduled to begin at 5:30 p.m.
Location: SMUD Customer Service Center, Rubicon Room
6301 S Street, Sacramento, CA

Powering forward. Together.

SMUD®
AGENDA
BOARD ENERGY RESOURCES & CUSTOMER SERVICES
COMMITTEE MEETING
AND SPECIAL SMUD BOARD OF DIRECTORS MEETING

Wednesday, November 20, 2019
SMUD Customer Service Center, Rubicon Room
6301 S Street, Sacramento, California
Immediately following the Finance & Audit Committee Meeting
Scheduled to begin at 5:30 p.m.

This Committee meeting is noticed as a joint meeting with the Board of Directors for the purpose of compliance with the Brown Act. In order to preserve the function of the Committee as advisory to the Board, members of the Board may attend and participate in the discussions, but no Board action will be taken. The Energy Resources and Customer Services Committee will review, discuss and provide the Committee's recommendation on the following:

DISCUSSION ITEM

1. Chad Adair
   Authorize the Chief Executive Officer and General Manager to negotiate and execute the Purchase and Sale Agreement by and between SMUD and LOGOS Resources II, LLC, for the divestment of all of SMUD’s interests in the Rosa Unit Gas Reserves, with terms substantially similar to the attached term sheet, and to negotiate and execute all other documents necessary to complete the transaction.
   Presentation: 10 minutes
   Discussion: 5 minutes

INFORMATIONAL ITEMS

2. Elizabeth Whitney
   Managing Principal, Mguire Whitney
   Provide the Board an informational briefing on federal legislative activities.
   Presentation: 30 minutes
   Discussion: 15 minutes

3. Public Comment

4. Brandon Rose
   Summary of Committee Direction.
   Discussion: 1 minute
Members of the public wishing to address the Committee should complete a sign-up form available at the table outside of the meeting room. Members of the public shall have up to three (3) minutes to provide public comment. The total time allotted to any individual speaker shall not exceed nine (9) minutes for the entire Committee meeting time.

Members of the public wishing to inspect public documents related to agenda items may call 916-732-7143 to arrange for inspection of the documents at the SMUD Customer Service Center, 6301 S Street, Sacramento, California.

NOTE: Accommodations are available for the disabled public. If you need a hearing assistance device or other aid, please call 916-732-7143 in advance of this Committee Meeting.
Requested Action:

Authorize the CEO & General Manager, or his delegate, to negotiate and execute the Purchase and Sale Agreement (PSA) by and between Sacramento Municipal Utility District (SMUD) and LOGOS Resources II, LLC (LOGOS) for the divestment of all of SMUD’s interests in the Rosa Unit Gas Reserves (Rosa), with terms substantially similar to the attached term sheet, and to negotiate and execute all other documents necessary to complete the transaction.

Summary:

In March 2003, SMUD purchased a 21 percent ownership interest in natural gas reserves located in the San Juan basin in northern New Mexico from affiliates of El Paso Corporation. The property, known as the Rosa Unit, consists of 54,209 acres of producing leases with a total of over 500 gas wells currently operated by the majority owner, LOGOS Resources, LLC (“LOGOS”).

In recent years, the economics and environmental stewardship of owning conventional natural gas reserves has become increasingly challenged. Energy markets have changed dramatically since 2003, and SMUD’s own priorities have evolved. As a result, Rosa’s value to SMUD’s energy supply has substantially diminished and Staff recommends divestment of Rosa in accordance with the general terms and conditions of the PSA which are summarized below.

Under the negotiated terms of the PSA, SMUD would pay LOGOS $8.5 million and indemnify LOGOS against pending royalty interest owners’ claims. In exchange, LOGOS would assume SMUD’s interests in the property along with all attendant ownership obligations, including SMUD’s share of the future decommissioning costs for the existing 500 wells currently estimated at over $10 million. Further, LOGOS would be responsible for paying all future royalties and severance tax to the royalty interest owners.

To mitigate against this loss of gas supply in our portfolio, staff has identified available fixed price contracts at local market hubs that would be a more effective price hedge against price volatility and would also allow SMUD to tailor the volume and term to better match SMUD’s Board-approved Integrated Resource Plan, which calls for declining gas generation in the coming years.

Benefits:

Cost-effective acceleration of reducing SMUD’s carbon footprint. Eliminate SMUD’s future liability for decommissioning costs, which is currently estimated at $10-12 million. Reduced administration and liability for SMUD. Greater flexibility with energy supply portfolio.
Cost/Budgeted: Costs and projected savings have been discussed with Budget, Treasury, and Accounting staff.

Alternatives: Continue to own producing natural gas reserves with the associated costs, benefits, and risks.

Affected Parties: SMUD and LOGOS Resources II, LLC

Coordination: Energy Trading & Contracts, Treasury, Accounting, Resource Planning, Legal

Presenter: Chad Adair

Additional Links:
Term Sheet¹

Purchase and Sale Agreement by and between Sacramento Municipal Utility District (SMUD) and Logos Resources II, LLC (LOGOS)

Recitals

SMUD owns approximately 20% interest in certain interests in oil and gas leases and interests in certain wells located in the Rosa Unit Natural Gas Reserves in Rio Arriba and San Juan Counties, New Mexico (the Rosa Unit), and associated personal property, which collectively constitute the Assets subject to the Purchase and Sale Agreement (PSA).

LOGOS owns approximately 60% interest in the Assets and LOGOS Operating, LLC, a wholly owned subsidiary of LOGOS, is the operator of a federal exploratory unit encompassing all of the Lands and Wells included in the Assets.

Agreement Terms

- LOGOS would assume all SMUD's interests in the Assets, along with all attendant ownership obligations.
  - LOGOS would be responsible for all royalty obligations arising after the Effective Time.
  - LOGOS would be responsible for all expenses related to the ownership and operation of the Assets arising after the Closing Date.
  - LOGOS would be responsible for all property and production taxes, including excise and severance taxes arising after the Closing Date.
  - LOGOS would assume any well imbalance remaining as of the Closing Date.
  - LOGOS would be responsible for plugging and abandoning all wells as necessary and for restoring and/or reclaiming property included in the Assets in a manner consistent with applicable law.
- LOGOS would indemnify SMUD against all environmental liabilities involving the Assets, whether arising before or after the Effective Time.

¹ This Term Sheet is not itself an offer or agreement; it is only intended to represent a summary of and shall not replace or amend or be deemed to constitute any agreement or interpretation of, the PSA or the PSA terms and conditions.
• SMUD would pay LOGOS $8.5 million for future decommissioning costs, imbalance gas and other considerations.

• SMUD would retain obligations relating to personal injury, illness or death attributable to the Assets and arising from events occurring prior to the Closing Date, and for civil/administrative fines or penalties or criminal sanction relating to SMUD's pre-Closing conduct.

• SMUD would retain liabilities relating to pending litigation with respect to royalty obligations arising prior to the Effective Time, as well as to any future royalty claims related to SMUD errors prior to the Effective Time. Settlement of the pending litigation would be subject to LOGOS' consent.

• SMUD would retain the right to any refunds related to payments made in connection with the ownership or operation of the assets, including royalties and estimated royalties arising prior to the Effective Time.

• Each party would provide standard representations and warranties regarding its legal and financial standing, authority to enter into and perform under the PSA, and compliance with applicable laws, contracts and orders.

• SMUD would provide representations and warranties regarding material contracts and commitments made as of the Closing Date impacting the operation of the Assets.

• SMUD would indemnify LOGOS for losses arising from any retained liabilities, breach of its representations or warranties, or failure to perform under the PSA.

• LOGOS would indemnify SMUD for losses arising from any assumed liabilities, breach of its representations or warranties, or failure to perform under the PSA.

• The PSA could be terminated by mutual consent of the parties or by either party upon the other parties failure to satisfy the closing conditions.

• The Effective Time would be a set date not later than November 1, 2019.

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### BOARD AGENDA ITEM

#### STAFFING SUMMARY SHEET

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**NARRATIVE:**

**Requested:** Provide the Board an informational briefing on federal legislative activities.

**Action:**

**Summary:** SMUD's federal lobbyist, Elizabeth Whitney of Meguire Whitney, will brief the Board on the year-end Federal Legislative Report.

**Board Policy:** The federal legislation and policies SMUD tracks affect overlapping Strategic Directions including the following: Competitive Rates (SD-2), Access to Credit Markets (SD-3), Reliability (SD-4), Environmental Leadership (SD-7), Resource Planning (SD-9), Public Power Business Model (SD-11), and Information Management and Security (SD-16).

**Benefits:** Informs the Board on federal legislative issues.

**Cost/Budgeted:** There is no budgetary impact for this request.

**Alternatives:** Choose not to receive the annual update.

**Affected Parties:** N/A

**Coordination:** Government Affairs

**Presenter:** Elizabeth Whitney, Managing Principal, Meguire Whitney

**SUBJECT**

**Annual Legislative Presentation**

ITEM NO. (FOR LEGAL USE ONLY)

**ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.**
## BOARD AGENDA ITEM
### STAFFING SUMMARY SHEET

**TO**

1. Frankie McDermott
2. Nicole Howard
3. Stephen Clemons
4. [Legal]
5. [CEO & General Manager]

**TO**

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9. Legal
10. [CEO & General Manager]

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**NARRATIVE:**

**Requested Action:** Committee discussion and consensus on any directives provided to staff during the Committee meeting.

**Summary:** Wrap up period at the end of each committee meeting to summarize various Board member suggestions and requests that were made at the meeting in an effort to make clear the will of the Board. Energy Resources & Customer Services Committee Chair, Brandon Rose, will summarize Board member requests that come out of the committee presentations for this meeting.

**Board Policy:** GP-4, Agenda Planning states the Board will focus on the results the Board wants the organization to achieve.

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

**Cost/Budgeted:** N/A

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

**Affected Parties:** Board of Directors and Executive Staff

**Coordination:** Donna Lofton, Special Assistant to the Board

**Presenter:** Brandon Rose, Chair, Energy Resources & Customer Services Committee

**Additional Links:**

**SUBJECT**

**Summary of Committee Direction**

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.