

## **Appendix B**

### **Terms and Conditions of the Annexation**

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On July 14, 2005, the SMUD Board of Directors elected the following terms and conditions<sup>1</sup> of the annexation as identified in the SMUD Resolution No. 05-05-08.

1. Existing SMUD customers shall be held harmless as a result of the annexation of the Cities of West Sacramento, Davis, and Woodland and contiguous unincorporated areas of Yolo County into SMUD's electric service area.
2. Annexation shall not adversely affect the quality or level of service and reliability to existing SMUD customers.
3. SMUD ratepayers in the annexed territory shall pay through their rates and a surcharge an amount sufficient to recover the costs of annexation, including costs associated with the acquisition of the PG&E facilities, increased power supply costs and non-bypassable charges assessed to departing load by the California Public Utilities Commission or California law. The recovery of annexation costs shall be consistent with the following principles:
  - a. SMUD shall recover the first \$90 million of acquisition costs of PG&E's facilities over the long-term through SMUD rates charged to SMUD customers in the annexed territory (Yolo Customers). This amount constitutes the Base Amount.
  - b. Acquisition costs in excess of the Base Amount shall be included in the Surcharge Amount. Payment of this portion of the Surcharge Amount shall represent the Yolo Customers' equity contribution to the SMUD system.
  - c. Following the Yolo territory election addressing annexation, SMUD will acquire energy resources to serve the Yolo Annexation Customers and to the extent reasonable and prudent will fix the cost of all or a portion of the energy resources. In fixing the cost of the energy resources, if the forward price of natural gas is more than \$1 per MMBtu above the natural gas price assumed in the April 2005 SMUD Staff Assessment and Recommendation (SMUD Staff Assessment), the Surcharge Amount shall be increased to include the impact of natural gas prices (in excess of the assumed price plus \$1 per MMBtu) on the estimated economic benefits of the annexation.
  - d. The Surcharge Amount described in paragraphs 3.b and 3.c above shall be collected from the Yolo Annexation Customers during the Surcharge Period. The Surcharge Period shall continue until the Surcharge Amount is fully paid. While the term of the Surcharge Period is not fixed, it is expected

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<sup>1</sup> Application for Annexation of the Cities of West Sacramento, Davis and Woodland, and Unincorporated Areas of Yolo County and Related Sphere of Influence Amendment, Sacramento Municipal Utility District July 29, 2005, pgs. 21-23.

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to last between 5 and 10 years (based upon the assumptions in the SMUD Assessment).

e. During the Surcharge Period, the Surcharge Amount shall be reduced each year by the revenue collected from the Yolo Annexation Customers which is in excess of the revenue that would have been generated by SMUD tariffs plus any non-bypassable charges and amounts necessary to defray the reasonably calculated costs or impacts to the Cities of West Sacramento, Davis and Woodland and Yolo County (Yolo Jurisdictions) associated with the provision of electric service by SMUD.

f. During the Surcharge Period, the initial tariff rates for the Yolo Annexation Customers shall be 2% or more below the then effective PG&E tariff rates. The initial tariff rates shall be set to contribute to coverage of SMUD's fixed costs to recover the Surcharge Amount (over the Surcharge Period), non-bypassable charges and amounts necessary to defray the reasonably calculated costs and impacts to the Yolo Jurisdictions associated with the provision of electric service by SMUD.

g. At the end of the Surcharge Period, the Yolo Annexation Customers shall be placed on the then applicable SMUD tariff rates for similarly situated customers. In addition to the SMUD tariff rates, the Yolo Customers shall continue to pay any ongoing non-bypassable charges and amounts necessary to defray the reasonably calculated costs or impacts to the Yolo Jurisdictions associated with the provision of electric service by SMUD.

4. A mechanism to defray the reasonably calculated costs and impacts to the Cities of West Sacramento, Davis and Woodland, and the County of Yolo, associated with the provision of electric service by SMUD, shall be implemented pursuant to agreement between SMUD and the local jurisdictions and/or in accordance with conditions or mitigation imposed by LAFCo. If implemented by agreement, the mechanism shall remain in place for an initial term to be mutually agreed upon by parties. Within one year of expiration of the initial term, SMUD and the Cities of West Sacramento, Davis and Woodland, and the County of Yolo, may agree to continue the mechanism for another specified term.
5. To the extent any such mechanism is subject to the approval of voters in the territory to be annexed, and the voters to not approve the mechanism, SMUD shall not be obligated to proceed with the annexation unless each of the Cities of West Sacramento, Davis and Woodland, and the County of Yolo, confirm that they still desire to be annexed into SMUD's electric service territory.

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6. Pursuant to an agreement between SMUD and the Cities of West Sacramento, Davis and Woodland, and Yolo County, protests and votes cast in any elections that may be required under Government Code Sections 56129 and 57075 shall be counted throughout the territory to be annexed rather than on a jurisdiction-by-jurisdiction basis.
7. To the extent practicable, SMUD shall offer to hire qualified PG&E employees displaced as a direct result of the annexation to fill the SMUD positions created to effect the annexation.
8. The annexation effective date shall occur nine months after the date of any election under Government Code Sections 56129 and 57075 in which a majority votes in favor of SMUD's annexation of the Cities of West Sacramento, Davis, and Woodland and contiguous areas of Yolo County.
9. At the time the annexation becomes effective, or as soon as possible thereafter, SMUD shall modify its ward boundaries, consistent with Public Utilities Code Section 11857.1.
10. During annexation proceedings, SMUD may propose or negotiate with LAFCo any other terms and conditions reasonably necessary to effect the annexation.