

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
1112 I Street, Suite #100, Sacramento, California 95814
(916) 874-6458

MUNICIPAL SERVICE REVIEW WORKSHEET
AND REQUEST FOR INFORMATION

Date: January 13, 2006

Agency Name: Sacramento Municipal Utility District (SMUD or District)

Address: 6201 S Street
Sacramento, California 95817

Website: <http://www.smud.org/>

Telephone: (916) 732-5830 (FAX) (916) 732-6581

Administrator Name: Jan Schori

Title: General Manager

Name of Contact: Arlen Orchard

Contact's e-mail Address: aorchar@smud.org

Agency's Principle Act: Municipal Utility District (MUD) Act (California Public Utilities Code Division 6 (Sections 11501-14403.5))

Date of Formation/Incorporation: July 23, 1923

Services Provided: Electric Service and Lighting Service

Latent Powers: Provision of water, heat, transportation and telephone service (or other means of communication); means for collection, treatment or disposition of garbage, sewage or refuse matter.

Governing Body: 7-member elected Board of Directors

Total Number of Employees: 2421 (Data as of September 1, 2005)

Represented:

International Brotherhood of Electrical Workers (IBEW) 698

Organization of SMUD Employees (OSE) 726

Self-Represented:
Professional, Administrative and Supervisory (PAS) 913
Security 45
Executive/Management 39

Acreage/sq. miles within Agency: Approximately 900 square miles comprised of substantially all of Sacramento County, a small portion of Placer County, and one parcel in Yolo County (to serve a Sacramento Regional County Sanitation District facility)

Total Population within Agency: Approximately 1.3 million

Total Registered Voters within Agency: 623,877 -- Sacramento County; 1,476 – Placer County; 0 – Yolo County

SMUD filed an Application for Annexation of the Cities of West Sacramento, Davis, and Woodland, and Unincorporated Areas of Yolo County (the Annexation Territory) and Related Sphere of Influence Amendment (the SMUD Application) with Sacramento LAFCo on August 1, 2005. In general, SMUD proposes to extend its electric service practices and polices to the Annexation Territory. (SMUD Application, Section IV.B.1, Enumeration and Description of Services to be Provided, and Section IV.B. 2, Level and Range of Services.) SMUD's plan for providing service in the Annexation Territory is described in detail in the SMUD Application. Where appropriate in this Worksheet, SMUD has included references to the proposed annexation or to the relevant portions of the SMUD Application.

Information regarding the size and population of the Annexation Territory is set forth in Section II.F, Areas Under Consideration, of the SMUD Application.

Please Provide the Following:

1. Mission Statement

As a community-owned utility, SMUD's vision is to be a leader in customer satisfaction and a positive force in promoting community benefits. (Vision Statement.)

SMUD's purpose is to provide solutions for meeting our customers' electrical energy needs. (Purpose Statement.)

2. Current Organization Chart

Attachment A – September 2005 SMUD Organization

3. Most Recently Adopted Budget

Attachment B – 2005 Budget

4. Most Recently Completed Financial Audit Report

Attachment C – 2004 Financial Audit Report

5. Annual Report

Attachment D – SMUD 2004 Annual Report

6. Strategic Plan/Master Plan

Attachment E - SMUD Staff Implementation Plan of Board Strategic Directives 2005-2011

7. Copies of Current and Past year's Newsletters

Attachment F – SMUD Newsletters

8. Any other relevant Supporting Documents

Attachment G – Load Serving Capability (2004 – 2013)

Attachment H – Transmission Reliability Assessment (2004 – 2008)

Attachment I – Reliability Criteria for Transmission System Planning

Attachment J – Primary Overhead Conductor Loading Guideline

Attachment K – Distribution Business Plan (2005 – 2009)

Attachment L – Distribution System Plans (2005 – 2009)

Attachment M – Capacity/Energy Shortage Plan

Attachment N – Overall Organization Charts (2002, 2003, 2004 & 2005)

Attachment O – Presentation on District Training

Attachment P – Standard District Policy Overview

Attachment Q – SMUD Rates, Rules and Regulations

Attachment R – Standard District Policy 3.3 Delegations of Authority

Attachment S – SMUD Board of Directors’ Strategic Directives

Attachment T – SMUD Board-Staff Linkage Policies

Attachment U – 2002 and 2004 Board Member Election Results

Attachment V – SMUD Emergency Operations Plan (EOP) *(Due to the size of document, only the Master Table of Contents is included in binders. The full document is available on CDs)*

Attachment W – SMUD Business Technology Continuity Plan *(Due to the confidential nature of the information in this plan, only the Table of Contents is included. The Plan may be reviewed by LAFCo staff upon execution of a confidentiality agreement.)*

Attachment X – The Electrification of Sacramento

Attachment Y – SMUD Board Governance Process Policies

Attachment Z – Energy Risk Management Policy

Attachment AA - Settlements

Attachment AB – Grand Jury Report

Attachment AC – Records Management and Retention Policy

Attachment AD – CUEA Mutual Assistance Agreement

Attachment AE – Members of the Western Energy Institute Mutual Assistance Agreement

Attachment AF – California Master Mutual Aid Agreement

Attachment AG – SMUD 2005 Investment Policy

I. INFRASTRUCTURE, FACILITIES AND SERVICES/GROWTH AND POPULATION PROJECTIONS FOR THE AFFECTED AREA

a. What is the current (baseline) demand for services?

SMUD is the nation's sixth largest community-owned electric utility, serving a population of about 1.3 million people. SMUD has approximately 575,000 customers. It has a peak demand of 2,959 Megawatts (MW) and annual energy sales approaching 10,325,000 Megawatt-hours (MWh) per year. SMUD provides a full complement of energy services including:

- Generation
- Transmission
- Distribution
- Customer services and programs
- Lighting Services

SMUD provides affordable, quality and timely solutions for meeting its customers' electrical energy needs, through a local, accountable, and elected Board of Directors. Customer Service Programs include:

- Residential
 - Customer Care (Billing, Metering, Call Center, Ombudsman)
 - Energy Efficiency
 - Low Income and Medical Equipment Discount
 - Greenergy[®]
 - Solar
 - Energy Load Management
 - Retail Products and Service (for example: Home Electrical Repair)
- Commercial
 - Customer Care (Call Center)
 - Account Management
 - Energy Efficiency
 - Greenergy[®]
 - Solar
 - Load Management
 - Retail Products and Services (Energy Tracking, Diagnostic Services)
 - Economic Development

b. What is the projected demand for services:

The following table shows the total number of customers, electric demand and energy sales forecasts for the next five (5) years:

Year	Avg. Monthly Customers	Peak Demand (MW's)	Energy Sales (MWh)
2006	586,000	3,018	11,251,210
2007	598,000	3,078	11,482,063
2008	611,000	3,139	11,740,301
2009	623,000	3,198	11,930,251
2010	635,000	3,261	12,159,595

***Table does not include the effects of Annexation

Expected growth in SMUD's existing service area will result in new electric facilities and customer service infrastructure such as personnel, computer equipment, vehicles, office space, etc. SMUD will continue to employ a workforce sufficient to sustain the reliable provision of electric service and fulfill the policies adopted by the SMUD Board of Directors. SMUD's Board of Directors has adopted Strategic Directives, which guide SMUD's business operations related to customer satisfaction, service, reliability, financial strength, and competitive position. Other targets and goals establish priorities for capital improvements, budgeting, planning, and projects that enable SMUD to achieve the Board's Strategic Directives.

The Cities of West Sacramento, Woodland and Davis (the Cities), and Yolo County, have requested that SMUD annex the Cities and adjacent portions of unincorporated Yolo County (collectively, the Yolo Annexation) into SMUD's electric service area. On August 1, 2005, SMUD submitted an application for annexation with the Sacramento Local Agency Formation Commission (LAFCo). Annexation in 2008 will increase electric demand by approximately 370 MW, energy sales by approximately 1,362,531 MWh, and customers by about 70,000. SMUD will procure new energy resources for the Yolo Annexation Customers' needs and will not use SMUD's existing low cost resources to serve the Annexation Territory.¹ New resources will be a mix of new generation and new long-term energy contracts. Since energy prices in California are primarily driven by natural gas prices, SMUD plans to begin hedging natural gas costs as soon as provision of electric service by SMUD is approved by the voters in the Yolo Annexation Territory. SMUD will hire additional labor to support these customers as necessary. SMUD proposes to hire qualified PG&E employees displaced as a result of the annexation to fill new SMUD positions created due to annexation.

¹ Included in the mix of energy resources procured to serve the Yolo Annexation Customers will be sufficient renewable resources to meet SMUD's renewable portfolio standard goal of 20% renewables by 2011.

SMUD's existing customer service infrastructure, overhead administration, and other SMUD services can accommodate the new customers with little or no expansion, leading to significant economies of scale throughout SMUD's existing service area and the area considered for annexation.

(See SMUD Application, Section III.B, Expected Benefits; Section IV.B.5.a.(2)(i), Operation and Maintenance; and Section IV.B.5.a.(3), Customer Service, Field Service and Billing.)

c. What is the existing and projected service capacity?

Electric Service Capacity

SMUD's 2005 load serving capability (LSC) is 3,150 MW, compared to a peak load demand of 2,959 MW set on July 15, 2005. LSC is the physical ability of the system to carry power without excessive voltage drop and without stressing the system by exceeding component thermal and import limits. Peak load demand is defined as the highest energy consumption demand on an hourly basis. SMUD plans for load growth in advance to ensure sufficient energy resources are available to meet customer needs at the lowest possible cost.

SMUD meets its daily load requirements through a combination of generation resources including natural gas cogeneration, hydroelectric power from the District's Upper American River Project (UARP), long-term contracts with the Western Area Power Administration (WAPA), and wind energy from SMUD's Solano wind project. In addition, SMUD's new 500MW Cosumnes Power Plant (CPP) will be commissioned and on-line in early 2006.

SMUD meets its natural gas demands for its power plants through a combination of contracts and SMUD owned natural gas reserves in New Mexico. It transports the natural gas through a combination of firm resources, including:

- A SMUD owned local pipeline
- Equity share of the PG&E Backbone pipeline system with access to the northern and southern California Borders
- Firm interstate pipeline capacity to the Canadian supply basins, basins in the Rockies and the Southwest
- The District also has contracted for natural gas storage to contribute to both price stability and physical interruption protection

The District has a risk management program in place that minimizes exposure to the short-term volatility in gas prices. Gas Supplies are

purchased based on a portfolio concept balancing long-term, mid-term, and shorter-term supply contracts. The long-term resources include the District's own gas reserves which are expected to last over 50 years and long-term contracts that can last several years. The mid-term contracts can last several months to two years and the short-term contracts are generally one or two months. Staff buys or sells gas on a daily basis to deal with load deviations.

SMUD's LSC will increase to 3,400 MW with the addition of its Cosumnes Power Plant (CPP) plant in early 2006. Other area projects under way (e.g. Roseville Energy Park) or in the planning process (e.g., O'Banion to Elverta Substation 230 kilovolt transmission line) will further enhance SMUD's LSC to approximately 3,700 MW during the 2008-2009 timeframe (see Attachment G).

SMUD's LSC plan meets the established criteria of the Western Electric Coordinating Council (WECC) and the North American Electric Reliability Council (NERC) for withstanding single contingency outages or failures during forecasted peak load conditions. (See Discussion of SMUD Control Area Operations, Section I.d)

(See SMUD Application, Attachment F, SMUD Yolo Annexation Feasibility Study, p. 26 (SMUD's Load Serving Capacity and Capability).)

Growth Projections

SMUD's 2004-2013 Load Forecast and Economic Outlook projects an average annual increase of 2% in customer accounts over the next ten years in SMUD's existing service area. Customers continue to move to the Sacramento region due to the relatively lower cost of housing, availability of land for development, growing employment, and proximity to other regional employment centers. Risks to the local economy include interest rates, state employment plans, real income growth, and the impact of growth on the quality of life. SMUD reviews and relies on certain California Department of Finance reports and analyses as well as economic and financial forecasts from Global Insight in preparing SMUD's Load Forecast and Economic Outlook. While weather remains the most significant driver of short-run energy sales, long-run sales will be influenced by economic conditions, government regulation and investments in energy efficiency.

(See SMUD Application, Section III.B, Expected Benefits and Section IV.B.5.a.(2)(b), Modifications and Proposed New Facilities.)

SMUD's Electric System Operations Center is operated around the clock and staff responds to calls and dispatches field personnel as needed.

Outage Management

SMUD has an Outage Management System (OMS). The OMS system is an integrated software system that processes outage reports and pinpoints the likely location of each outage. The OMS system reduces the time it takes dispatchers to send troubleshooters and crews to restore service and respond to customer inquiries.

Further, the OMS system provides an accurate count of the number of customers affected by each outage and estimates the length of time to restore service. This information is provided to SMUD customer service representatives and the Interactive Voice Response system (IVR), so that customers can learn when their service should be restored. SMUD Communications & Advertising Services staff also conveys timely information to TV, radio, and newspapers about SMUD outages.

The average response time for an outage call is less than 30 minutes during normal work hours and less than 60 minutes after hours and during holidays and weekends. The average time to restore power when major equipment is not involved is 30 minutes after the troubleshooter arrives on scene. When major equipment such as poles or transformers are involved, the average time to restore power is a little over 4 hours during normal work hours and about 4 ½ hours after hours and during holidays and weekends. SMUD's proposed Yolo Annexation is not expected to negatively impact outage response times or increase outage restoration times.

Customer Service Capacity

SMUD handles approximately 1 million calls on an annual basis. The average call response time is less than 1 minute. Currently, SMUD's call center can handle 138 calls simultaneously. Initially all calls come into an Interactive Voice Response (IVR) system that channels the calls to the appropriate personnel i.e. outages, billing etc. When the system has 75 calls backed up and held in queue they are diverted to a High Volume Call Answering (HVCA) service that can handle 1800 calls simultaneously. The HVCA service is provided by a third party service provider. Calls can also be directed to a high volume message informing the caller about the high volume of calls and requesting that the caller call back. The existing call handling system meets established Board and management metrics and is capable of expansion by 30%. As adequate call handling capacity exists, there are no plans to expand the system in the next 3-5 years. Reliability of the telephone system is maintained by the ability to switch the calls through two separate central telephone offices. SMUD's existing system has sufficient capacity that the Yolo Annexation will not negatively impact average call response times.

d. How are infrastructure needs determined? Provide copies of capital improvement and master plans that address infrastructure.

Infrastructure needs are developed and prioritized based on the SMUD Staff Implementation Plan of Board Strategic Directives 2005 – 2011(Implementation Plan)². The decision to develop new or replace existing infrastructure is based on operating plans that incorporate the Implementation Plan. These operating plans include:

- Designing and managing the system with sufficient capacity to meet customer load demands resulting from extreme 110 degree days,
- Operating SMUD's own Control Area,
- Maintaining and improving distribution reliability, and
- Managing system outage frequency and duration.

System Design and Management

SMUD plans, designs, builds and operates its supply and delivery infrastructure to meet extreme peak demands with adequate Load Serving Capability (LSC). For example, as noted above, SMUD's LSC of 3150 MW exceeded SMUD's July 15, 2005 historical peak demand of 2959 MW. SMUD also has strong renewables and energy efficiency programs.

Renewable Portfolio Standard and Public Goods

SMUD was the first utility in California to establish a Renewable Portfolio Standard (RPS). The SMUD Board of Directors has voluntarily committed to meet 10% of SMUD's load with renewable generation by 2006 and 20% of its load with renewables by 2011. Currently, SMUD forecasts that it will be at 15% in 2006 and 23% in 2011, which will exceed the statutory RPS mandates applicable to the Investor Owned Utilities (IOUs).

In addition to the current level of Public Goods funding (which ensures that energy efficiency programs are available to all customer segments), the Board of Directors has determined that SMUD will invest in energy efficiency measures that are verifiable and cost effective when compared with other energy supply alternatives. In essence, this creates an integrated resource planning process that incorporates energy efficiency options into determining the optimal energy supply for SMUD and its customers.

² Attachment E, SMUD Staff Implementation Plan of Board Strategic Directives 2005-2011 and Attachment S, SMUD Board of Directors' Strategic Directives

SMUD's voluntary per capita spending on energy efficiency has exceeded that of California's IOUs for over two decades.

SMUD is also committed to expanding the application of solar technology. Over the past two decades, SMUD has achieved one of the highest annual installation rates for solar energy of any utility in the country in relation to its size. Nearly 10MW of grid-connected solar systems have been installed. This represents approximately 10% of all grid-connected Photovoltaic systems in California.

SMUD Control Area

In June 2002, SMUD established its own Control Area. Two of the key benefits of the new Control Area are (i) to eliminate customers' exposure to financially induced rotating blackouts like those resulting from the dysfunctional California electric markets in 2000-2001; (ii) to provide cost certainty and control through reduction of California Independent System Operator charges; and (iii) to ensure continued operational control over SMUD owned generation and transmission facilities.

Distribution Reliability

Western Electricity Coordinating Council (WECC) is a member organization recognized by the North American Electric Reliability Council (NERC) that works to maintain a reliable electric power system in the Western Interconnection and assures open and nondiscriminatory transmission access among members, sets standards for operation and maintenance of the transmission systems, and audits the members for compliance with the standards

SMUD meets or exceeds existing WECC and NERC criteria for Planning Standards, including maintaining operating reserves consistent with Control Area requirements. WECC has re-certified the SMUD Control Area in anticipation of the California-Oregon Transmission Project (COTP) and Modesto Irrigation District moving into the SMUD Control Area. Besides maintaining operating reserves for the single largest contingency plus 5% of load net of committed firm contracts per the WECC Minimum Operating Reliability Criteria (MORC), SMUD maintains planning reserves in the 10-12% margin based on monthly system peak. The planning reserve margins are expected to increase with the commissioning of the SMUD's Cosumnes Power plant in early 2006.

Distribution System Operations

To maintain a high level of distribution reliability and manage system outage frequency and duration, SMUD has developed infrastructure replacement and rehabilitation programs, including cable replacement. Underground cable failures have been the leading cause of outages since 1999. Staff targets sections of cables that can provide the best reliability improvement, either through rehabilitation or replacement of cable at the lowest costs. SMUD replaced 102,651 circuit feet of underground cable in 2004 and has replaced 89,433 circuit feet through September 2005 out of the 100,000 circuit feet planned for replacement in 2005. Additionally, SMUD has rehabilitated, by silicone injection, 115,399 circuit feet in 2004 and 80,438 circuit feet thru September 2005.

The number of cable failures and the amount of cable rehabilitation and replacement are monitored and evaluated annually to ensure the most efficient use of resources. Beginning in 2006 and beyond, SMUD plans to annually replace 100,000 circuit feet of underground cable and rehabilitate 100,000 circuit feet.

Prior to 1999, trees were the leading cause of outages. In 1999, SMUD instituted a new tree-trimming program that calls for trimming all trees every three years, fast growing trees every 18 months, and special problem trees as needed. Since this program was instituted, tree caused outages have been reduced dramatically and are no longer among the five leading causes of outages. Since instituting the systematic tree-trimming program, SMUD customers have experienced significantly improved reliability and fewer outages.

SMUD has developed a transmission and distribution maintenance plan that achieves an appropriate balance between maintenance activities and replacement, thereby minimizing total life cycle costs. Factors that determine how investments are prioritized are:

- Employee and public safety
- Compliance with regulations
- Projects that have the largest impact on reliability per dollar spent
- Life-cycle equipment cost reductions

Consistent with its Implementation Plan, SMUD's planning criteria for the transmission and distribution system ensure the system has sufficient capacity to serve peak loads even with the loss of the largest single system component. (See discussion on Load Serving Capability, Section I.c) SMUD prioritizes capital improvements to enhance system reliability, reduce the frequency and duration of outages, improve customer service,

meet planning criteria, and minimize costs and the need for equipment upgrades or expansions.

Copies of the SMUD planning documents that address infrastructure are provided in the following attachments:

- Attachment E -Staff Implementation Plan of Board Strategic Directives 2005-2011,
- Attachment H - Transmission Reliability Assessment (2004 – 2008),
- Attachment I - Reliability Criteria for Transmission System Planning,
- Attachment J - Primary Overhead Conductor Loading Guideline,
- Attachment K - Distribution Business Plan (2005 – 2009), and
- Attachment L - Distribution System Plans (2005 – 2009).

(See SMUD Application, Section IV.B, Components of Plan for Service.)

e. Provide schedules for infrastructure replacements and upgrades; explain how schedules are being met. Describe operation and maintenance program(s), including any identified areas of deferred maintenance.

The strategic goals, transmission and distribution plans summarized in the previous response and provided in Attachments E, H, I, J, K, and L describe the infrastructure replacements and upgrades necessary to meet SMUD's Implementation Plan. The proposed projects include new substations, new line sections, reconductoring/replacement, and equipment maintenance. These plans also include a schedule for the proposed replacements and upgrades. Please refer to Attachment L, sections Area A System Plan, Area B System Plan, Area C System Plan, Area D System Plan, and Maintenance Plan sections for the planning and project schedule documentation. Once the plans are developed and approved, the work is budgeted and scheduled. The Planning and Operations and the Asset Management groups monitor project schedules monthly to ensure that the project schedules are being met. If schedule problems are identified, contingency plans are implemented to address the schedule slippage.

The operation and maintenance programs described in the Maintenance Plan section of Attachment L include:

- Inspections
- Underground Cable Preventive Maintenance
- Vegetation Management
- Wood Poles

- Corrective Maintenance
- Distribution Line Preventive Maintenance
- Substation Preventive Maintenance
- Network Preventive Maintenance

SMUD maintenance is performed in accordance with maintenance schedules and programs. Consequently, SMUD does not currently have any maintenance that is being deferred.

(See SMUD Application, Section IV.B.5, Improvements/Upgrading of Facilities.)

f. How will new or upgraded infrastructure be financed?

Existing SMUD Service Area

New and upgraded infrastructure is financed through a combination of cash and tax-exempt system revenue bonds. SMUD anticipates at least a 20% equity contribution from customers in future infrastructure investments and has implemented a financial plan to achieve the 20% equity target by 2007. (See Board Strategic Directive 3, Attachment S) Beginning in 2008, the District will use target cash coverage of all debt service payments (fixed charge ratio) of 1.3 to 1.5 times, which over time will increase SMUD equity position to more than 20%.

Proposed Annexation Facilities

New and upgraded infrastructure in the Annexation Territory will be financed through a combination of cash and tax-exempt system revenue bonds. The acquisition of PG&E's existing facilities will be financed through a combination of cash and taxable financing instruments. Customers in the Annexation Territory will build equity through an annexation-related surcharge and their rates over time. This is explained in greater detail in SMUD Application, Section III.C.1, Surcharge Design and Purpose, and Section IV.B.6, Information as to how Services will be Financed.

g. List infrastructure deficiencies; indicate if deficiencies have resulted in permit or other regulatory violations; explain how deficiencies will be addressed.

As described above, SMUD has developed and implemented a systematic approach to ensure that it meets the current and future infrastructure needs of its customers. Consequently, SMUD does not have any infrastructure deficiencies, which would negatively impact reliability or customer

service. Nor does it have any infrastructure deficiencies that have resulted in permit or other regulatory violations.

SMUD has excellent working relationships with federal, state, and local agencies that regulate and permit facilities, as well as oversee safety, health, and environmental matters. SMUD consults regularly with these agencies during facility planning, design, construction, and inspection. Safety, health, and environmental issues identified during regular inspection intervals or during the normal operation and maintenance of facilities are corrected as soon as practicable.

SMUD is not regulated by the California Public Utilities Commission (CPUC). However, SMUD voluntarily meets or exceeds the standards set forth in three CPUC General Orders (G.O.):

- G.O. 95: Rules for Overhead Electric Line Construction, which sets uniform requirements for overhead electrical line construction, the application of which is intended to insure adequate service and safety to persons engaged in the construction, maintenance, operation or use of overhead electrical lines and to the public in general.
- G.O. 128: Rules for Construction of Underground Electric Supply and Communication Systems, which sets uniform requirements for underground electrical supply and communication systems, the application of which is intended to insure adequate service and safety to all persons engaged in the construction, maintenance, operation or use of underground systems and to the public in general.
- G.O. 165: Inspection Cycles for Electric Distribution Facilities, which sets minimum requirements for electrical distribution facilities regarding inspections (including maximum allowable inspection cycle length), condition rating, scheduling and performance of corrective action, in order to promote safe and high-quality electrical service.

(See SMUD Application, Section IV.B.5, Improvements/Upgrading of Facilities.)

h. Describe capital facilities that are underutilized; explain how underutilized facilities could be shared with other agencies.

SMUD's capital facilities are planned and constructed to serve expected load and service customers, including future load growth. SMUD plans the expansion and utilization of the District's electrical transmission and distribution system to accommodate development and load growth within

its service territory. The planning for capital facilities is accomplished through the following ongoing actions and strategies:

- Monitoring and analyzing distribution system configurations and performance,
- Reviewing and analyzing the impacts of land-use proposals,
- Planning primary circuit designs for residential and commercial plans,
- Monitoring community development plans and issues,
- Developing long range plans for system design and configuration,
- Forecasting system loads and component loads,
- Analyzing and developing solutions for distribution operating and reliability issues,
- Maintaining existing system using “best practices” maintenance philosophies procedures,
- Developing project proposals to construct or modify distribution system facilities including feeders and substations,
- Establishing project priorities, and
- Budgeting and scheduling projects based upon system requirements, customer needs, and available resources.

In general, SMUD's capital facilities are not underutilized.

In certain circumstances, facilities may be underutilized as a result of changes in expected growth, plans for utilization, or technology. For instance, additional capacity presently exists in the 115 kV transmission system due to less than expected load growth and areas previously planned to be served by the 115 kV transmission system instead being served by the 69 kV sub-transmission system. Similarly, SMUD’s telecommunications fiber optic infrastructure was installed to meet SMUD telecommunication needs. Extra capacity was installed for future growth at minimal additional cost.

Where facilities are underutilized or excess capacity exists, SMUD actively works with agencies to leverage existing or planned infrastructure for joint use to create efficiencies and economies of scale. Examples of joint uses include:

- Joint pole and joint trench use with other utilities for telephone, cable and fiber optic paths,
- Fiber optic capacity leased to public agencies such as Los Rios Community College District and City of Sacramento,
- Joint use of poles and towers for cell phone antennas,
- Federal law enforcement training exercises conducted at Rancho Seco facility, and
- Facility space made available at Rancho Seco to enhance the Sacramento County Sheriffs Department radio coverage.

Similarly, SMUD actively works with agencies to leverage existing or planned resources or needs to create efficiencies and economies of scale. Examples of these efforts include:

- Shared purchasing power for vehicles and leveraging procurement card program with the State of California,
- Mutual assistance agreements with other electric service providers -- Pacific Gas & Electric, San Diego Gas & Electric, Southern California Edison and Cities of Palo Alto, Redding, Riverside and Roseville, among others, to provide emergency support with materials, crews, and equipment during or after emergencies and for sharing of materials and labor, and
- Operational Area Agreements with Sacramento and El Dorado Counties for emergency planning, response and recovery activities

i. How are service needs forecast?

SMUD develops long-range forecasts to ensure new facilities and services keep pace with customer requirements. SMUD's long-range forecasting model is an econometric analysis of key variables that influence customers' long-run electricity requirements. Forecasts of SMUD resource and service needs are based on statistical models that measure energy use based on the number of customers (see response to item I.j. below), weather conditions, and monthly and daily energy use patterns. SMUD relies on certain California Department of Finance reports and analyses as well as economic and financial forecasts from Global Insight to assist in development of SMUD's long-range forecast. After adjustment for weather anomalies, SMUD's energy forecasts are regularly within 3% of actual results. Other information used to forecast service needs include:

- Changes to local, state and federal energy efficiency appliance and building standards, and
- Customer participation in SMUD's load management and energy efficiency programs. SMUD's system energy and peak demand forecasts are used to plan for future generation resources, enter into long-term and short-term power contracts, and to upgrade and expand SMUD's transmission system. Forecasts are updated regularly to account for changes in key variables such as energy use behavior or population growth.
- SMUD relies on certain California Department of Finance reports and analyses as well as economic and financial forecasts from Global Insight to assist in development of SMUD's long-range forecast.

(See SMUD Application, Section III.B, Expected Benefits and Section IV.B.2, Level and Range of Services.)

j. How are growth/population projections integrated with plans for future services?

Customer growth and population projections are key drivers of future energy and peak demand service needs. Each year, SMUD develops a forecast of Sacramento area population, housing additions, employment, income, and building permits. SMUD's forecast of these variables relies on population projections produced by the California Department of Finance and economic and financial forecasts by Global Insight. Using these resources, SMUD projects numbers of new residential and non-residential customer accounts. Based on these projections, SMUD develops energy and peak demand forecasts. The customer forecast is also used to project long-term service needs for load serving capability, transmission, sub-transmission, primary, and secondary distribution voltage service levels. In addition, these forecasts are used to strategically plan customer programs and provide services.

In the short-term, distribution-planning requirements are based on the actual number of requests that SMUD receives for new electrical hookups from customers and developers.

(See SMUD Application, Section III.B, Expected Benefits and Section IV.B.5.a.(2)(b), Modifications and Proposed New Facilities.)

k. Provide maps of service areas for services that are provided less-than agency wide.

SMUD's electric services and customer programs are offered and provided throughout SMUD's existing service area, and will be offered and provided throughout the Annexation Territory.

l. Describe any variance or inequity in levels of service provided to customers. Explain why unequal service levels are present.

SMUD services and programs are offered and provided consistently throughout the SMUD service territory. SMUD installs a fully interconnected overhead and looped underground distribution system. The multiple interconnections and underground loops allow quicker isolation of problems and restoration of service. In some cases, system design and configuration may vary due to customer requirements, density, and service availability, but does not result in differing levels of service.

Customers may contract and pay for facilities that are beyond the standard level of electric service. For example, a customer may choose enhanced redundant service for increased reliability and pay an additional cost associated with the additional infrastructure.

(See SMUD Application, Section IV.B.2, Level and Range of Services.)

m. Provide the assessor parcel number or addresses of properties, which are located outside agency boundary and receive agency services; list type of service and date commenced.

There are a limited number of residences outside of SMUD’s service territory that receive electric service from SMUD pursuant to service exchange agreements with PG&E. Exchange agreements allow for provision of energy services to customers that are more readily served by an adjacent utility (here, SMUD) than an investor owned utility (here, PG&E). In most cases, PG&E continues to meter and bill these customers. The address for each location is listed below:

<u>PG&E Meter Number</u>	<u>Location</u>	<u>PG&E Customer Number</u>
T972147	Boessow Rd 2mi s/w at island	CGC 3180209-63967
109R15	Dry Creek s/s .8mi w/o Elliott	CGC 3180315-63940
R98357	s/s Dry Creek Elliott Rd .5 mi w/o	CGC 3180472-63950
859T63	Dry Creek s/s .5mi w/Elliott	CGC 3180487-63950
2443R2	n/o end of Mackville Rd 2 mi	CGC 3182930-64767
R40427	Mackville Rd 2mi n/e of end	CGC 3183502-6140
0611R0	Borden Rd 2nd bend s/headqtrs	CGC 318263564900
29145R	Mackville Rd 2mi n/e of end e/s of pond	CGC 3183041-64789
A42187	28080 Mackville Rd	CGC 3182965-64692
46R770	n/e of hse 28080 Mackville Rd	CGC 3183033-64693
702J35		
2R6063	West end Mackville Rd 3mi n/Liberty	CGC 3183137-64715
104804	31353 Mackville Rd	CGC 3183137-64715

***Each of these services commenced prior to January 2000.

n. Explain policies or procedures that establish priorities for directing services to infill areas.

SMUD's design, planning, and construction of electric facilities are based primarily on local government land use planning and regulation of development. However, the SMUD Board of Directors recently adopted a policy to support the "Sacramento Region Blueprint Transportation and Land Use Study" planning principles and preferred growth scenario. SMUD will be working with local governments to determine how to best support the Blueprint Project preferred growth scenario in the context of the construction of new electric facilities and providing service to new projects which comply with the preferred growth scenario.

Currently, however, SMUD's existing rates require commercial customers to pre-fund facility costs for service extensions. Therefore, commercial customers can lower up front facility costs by locating in areas with existing electric service (infill areas) as opposed to areas where new construction of electric facilities is required. In addition, for the same reason, infill electric services usually result in shorter construction times.

(See SMUD Application, Section IV.B.2, Level and Range of Services.)

o. Describe provisions for providing services in emergency situations, (i.e.-storage capacity, number of days that services can be provided, etc.)

A. Background

SMUD's emergency preparedness includes the maintenance of an Emergency Operations Plan (EOP), Attachment V, for the purpose of responding to and recovering from emergencies that adversely affect business continuity and the capacity to safely generate, transmit, and distribute electric power and/or natural gas. The EOP is intended to provide policies, procedures, and resources prior to or immediately following an emergency incident.

As part of the EOP, SMUD interfaces with local, state, and federal agencies to provide a central SMUD point-of-contact for dealing with emergency and disaster preparedness, response, recovery, and mitigation issues. SMUD has long been recognized for its close work with government agencies at all levels, as well as its coordination with other utilities in California and the Western US. Some of these activities include providing training and educational opportunities. SMUD also participates in the development, review, and update of the Sacramento County Emergency Operations Plan, as well as other local planning efforts.

B. Emergency Operations Plan (EOP)

The EOP addresses SMUD's organizational and operational plans for responding to various types of emergencies. The EOP defines four (4) levels of severity for emergencies and SMUD's response requirements:

- Level I events may impact a small number of customers (<6000) for a short duration (<24hrs). A Level I emergency response remains within SMUD and is generally coordinated by the responsible department (for example, car vs. pole accidents, equipment failure, or controlled chemical or oil spills).
- Level II incidents may impact a larger number of customers (>6000) for a longer duration (>24hrs). A Level II Emergency response remains within SMUD. Depending on the severity of the event, a Level II event may either be coordinated by the responsible department or SMUD's Emergency Operation Center (EOC) may be activated. Level II events could include local flooding, an area-wide storm, a major fire, or cyber events.
- Level III incidents may impact a large number of customers (>6000) for a long duration (>24hrs). A Level III Emergency response usually requires interaction with other utilities and other local, state, or federal agencies. For a Level III incident, SMUD will activate the EOC and may also activate existing mutual aid or assistance agreements. Level III incidents could include severe storms or flooding, or regional multi-day power outages.
- Level IV incidents may impact most customers for an extended period of time with resources in the affected area(s) overwhelmed. SMUD will activate the EOC and may require extensive state and/or federal resources. Examples of possible Level IV incidents include major earthquake, a dam failure or a catastrophic electrical system failure.

C. Emergency Operation Center (EOC) and Emergency Response Organization (ERO)

The EOP also includes the policies and procedures for an Emergency Operations Center (EOC) and Emergency Response Organization. The Emergency Response Organization (ERO) consists of the personnel and their responsibilities/authority required to respond to an emergency condition and are defined within the EOP. In the event the severity of an emergency requires the activation of the EOC and ERO, the EOC becomes the command center for SMUD's emergency response and recovery, and the interface with authorities, utilities, other agencies, and news media. The EOP includes the resources, titles, responsibilities, policies, and procedures for the ERO and EOC.

D. Individual Department Emergency Operation Plans (DEOPs)

The EOP includes individual Department Emergency Operation Plans (DEOPs) that are maintained by specific SMUD departments and functional groups. The following are examples of SMUD DEOPs:

- Business Technology Continuity Plan
- Capacity and Energy Shortage Plan
- Other Plans (Rancho Seco Emergency Plan, Upper American River Project Emergency Plan, Gas Pipeline Plan)

These plans are described below.

1. Business Technology Continuity Plan (BCP)

The purpose of the BCP is to protect SMUD's technology infrastructure and information assets, assure employee safety, and provide continued services to SMUD customers in an emergency. The plan provides for reestablishment of critical and essential operations that may have been disrupted due to the impact of an unforeseen event beyond the scope of standard operating procedures. The plan includes the resources, policies, and procedures necessary for the continuity of SMUD's technology resources. The plan includes: Risk Assessment, Business Impact Analysis, Recovery Strategies, Plan Development, and Testing. SMUD's Technology Continuity Plan is provided in Attachment W. (For security reasons, Attachment W contains the Table of Contents only.)

2. Capacity/Energy Shortage Contingency Plan

The Capacity/Energy Shortage Contingency Plan (Attachment M) is an operational procedure for SMUD and Western Area Sierra Nevada (WASN) Power Operations in response to specific emergency situations within the SMUD Control Area. These emergency situations require the reduction or shedding of load within the SMUD Control Area because of a shortage of capacity or energy resources or because of import restrictions into the Control Area. These emergency situations are generally foreseeable and allow enough time for the orderly implementation of load curtailment or load shedding in accordance with the Contingency Plan.

3. Other Emergency Plans

SMUD has other DEOPs that are either specific to the departments assigned responsibilities or address a specific major SMUD facility. Examples of SMUD DEOPs that are for major facilities include: Rancho Seco Nuclear Generating Station (currently being decommissioned); SMUD's 76-mile natural gas pipeline; and SMUD's hydroelectric Upper American River Project (UARP). These plans also include the resources,

policies, and procedures for the preparedness, and for response and recovery from, an emergency involving these facilities.

F. SMUD Emergency Response Resources

SMUD is a 24 hour a day, 365 day a year (24/365) operation. SMUD monitors its electrical system and assets at all times and is in a constant state of readiness to respond to an emergency.

1. Systems Operation Center

SMUD's Systems Operation Center operates and monitors the electrical system 24/365. SMUD has an Outage Management System (OMS) that processes outage reports and pinpoints the likely location of each outage. The OMS system reduces the time it takes dispatchers to send troubleshooters and crews to restore service and respond to customer inquiries. The System Operation Center is also the single-point of contact for reporting an emergency and coordinating the initial emergency response. This single point-of-contact is also tied directly to the emergency response dispatch offices.

2. Security/Asset Protection

SMUD's Asset Protection Group is responsible for the protection of SMUD's employees, customers, and facilities. The Asset Protection Group also has a 24/365 presence throughout SMUD's facilities to ensure timely emergency response. The Asset Protection Group is proactive in risk assessment and also interfaces with law enforcement authorities as needed.

3. Labor, Materials, and Equipment For Emergency Needs:

SMUD has on-call procedures for 24/365 emergency response. In the event of an emergency, competent and trained SMUD personnel are in a state of readiness to respond. SMUD also has an extensive inventory of replacement materials, equipment, and spare parts, as well as numerous procurement contracts for materials and services in the event of an emergency.

4. Mutual Assistance Agreements

If an emergency requires resources beyond SMUD's capabilities, SMUD may utilize its current California Utilities Emergency Association (CUEA) Mutual Assistance Agreement (see Attachment AD), the Mutual Assistance Agreement coordinated by the Western Energy Institute (see attachment AE for a list of participants), or the California Master Mutual Aid Agreement. (See Attachment AF)

CUEA Mutual Aid Agreement

The Mutual Assistance Agreement between SMUD and eleven other utility members of the California Utilities Emergency Association calls for the provision of voluntary assistance in the form of labor, materials, or equipment among members. Assistance is provided in the event of a "disaster" that affects generation, transmission, or distribution facilities. Mutual Assistance in the form of labor and/or materials is available to SMUD upon the District declaring an emergency, without regard to the level of the incident.

California (Disaster and Civil Defense) Master Mutual Aid Agreement

Under the California (Disaster and Civil Defense) Master Mutual Aid Agreement, SMUD may call upon other signatory agencies for equipment, labor, or material assistance in the event of a "disaster". The California Master Mutual Aid Agreement is implemented through the Operational Area. The Operational Area (OA) is defined by the Emergency Services Act as an intermediate level of the state emergency services organization consisting of a county and all political subdivisions within the county area. Political subdivisions include cities, a city and county, counties, districts, or other governmental agency, or public agency authorized by law. If the Operational Area EOC is operational, the District can request aid (at no cost to the District) through the Operational Area. Most of this aid would be in materials such as vehicles, specialized equipment that the District doesn't have like large front-end loaders, high water trucks, etc. Most likely, qualified electrical workers are not available through this method.

The District also participates in the Western Energy Institute's Mutual Assistance Agreement for electricity and natural gas, between utilities in the Western US, Canada and Mexico (see attachment AE for a list of participants). The district must also, like in the CUEA agreement, declare an Emergency before requesting assistance.

G. Training and Testing

In order to maintain a state of readiness, SMUD conducts tests of its emergency policies, plans and procedures. In addition, SMUD requires all of its employees to attend emergency response training commensurate with their job responsibilities.

Testing generally consists of conducting simulations of emergency events. The simulations vary in complexity. SMUD has three levels of exercises. They are: Tabletop, Functional, and Full Scale or Field Exercises. Tabletop exercises generally consist of a group of emergency responders gathered around a table to discuss a simulated emergency. Participants discuss how the EOP would be used to respond to the emergency.

Tabletop exercises provide a convenient and cost effective method of introducing disaster-related problems for discussion and problem solving. These exercises are used to verify that policies and procedures exist to respond to potential emergency scenarios.

Functional exercises are designed to simulate an emergency. They typically involve the ERO and are designed to exercise emergency procedures and to evaluate the readiness of personnel and test communications, and verify EOC capabilities. Functional exercises are generally limited to phone calls or radio communication in response to an emergency.

Full-scale (field) exercises are also designed to simulate emergencies; they include actual field activity. These simulations typically involve the entire ERO, including field responders. Full-scale exercises evaluate the capability of the ERO to work with field responders.

SMUD conducts at least nine (9) exercises per year as follows:

<u>Emergency Plan</u>	<u>Required Exercise Frequency</u>	<u>2004</u>	<u>2005</u>
Rancho Seco	3 times Annually	2 Table-top 1 functional 1 field	3 table-top 1 functional 1 field
Gas Pipeline	Annual	1 field	4 table-top
Distribution System	Annual	1 functional	1 functional
District Wide Storm	Annual	1 functional	1 functional
Capacity and Energy Shortage	Annual	1 table-top	1 table-top
Business Technology Continuity	2 times Annually	2 table-top	2 table-top

Approximately one-half of the District initiated exercises are table-top exercises; one-third are functional exercises, involving the activation of an active portion of EOC or other functional portion of the District; and, the balance may involve actual field exercises where the activity is in the field with other agencies.

(See SMUD Application, Section IV.B.5.c, Emergency Preparedness and Asset Protection.)

II. EVALUATION OF MANAGEMENT EFFICIENCIES

a. What awards or recognition has the agency received?

Over the years, SMUD has performed extremely well in both the annual residential and business customer satisfaction surveys conducted by J.D. Power and Associates. In 2004, SMUD ranked in the top quartile among all utilities for the western region. In addition to being in the top quartile, SMUD was the highest ranked electric utility in California for both residential and commercial customers for customer satisfaction in the 2004 J.D. Power survey.

In July 2005, the J.D. Power and Associates' survey measuring Residential Customers' satisfaction with the nation's largest electric utilities showed that SMUD was ranked No 1 in California for five of the previous six years and was ranked third in the western region. SMUD was also ranked second in terms of commercial customer satisfaction for 2005.

The following is a list of awards and recognition SMUD has received over the last five years:

2005

- ***2005 Climate Action Champion*** from the California Climate Action Registry (CCAR) for SMUD's leadership on climate change issues and innovative energy programs that reduce greenhouse gas emissions.
- ***Hispanic Business Advocate of the Year Award*** from the Sacramento Hispanic Chamber of Commerce for continuous improvement of procurement and contracting processes for local and small businesses.
- ***Partner of Distinction Award*** from the Sacramento Hispanic Chamber of Commerce for ongoing support of the Alliance for Business and Community.
- ***Environmental Recognition Award*** from the Sacramento Environmental Commission for voluntarily exceeding environmental regulatory requirements and adding new measures in 2004 to reduce waste and use environmentally friendly materials.
- ***Best Workplace for Commuters Award*** from the U.S. Environmental Protection Agency for promoting various options for SMUD's employees to rideshare.
- ***Appreciation Award*** from the Sacramento City Unified School District Career & Technical Preparation Department for SMUD's Energy and Technology Center.
- ***Tree Line USA Award*** from the U.S. Dept. of Forestry for SMUD's Shade Tree Program. (This is the 5th consecutive year SMUD has won the award.)

- ***Crystal Communications Award*** from the International Association of Business Communicators (IABC) for two customer communication pieces.

2004

- ***Corporate Steward Award*** from the Sacramento Asian Pacific Chamber of Commerce for being a responsible corporate entity and supporting the community.
- ***Partner of Distinction Award*** from the Sacramento Hispanic Chamber of Commerce for ongoing support of the Alliance for Business and Community.
- ***Al Bell Award*** from the Capitol Center's Mathematics, Engineering & Science Achievement (MESA) Program in appreciation for SMUD's support of the MESA program.
- ***Flex Your Power Award*** in the Innovative Implementation Actions category from the State of California for SMUD's partnership with Doubletree Hotel and Lawrence Berkeley National Laboratories to test a new product (the Watt Stopper) that achieved significant energy savings.
- ***Award for Environmental Stewardship*** from the Sacramento Business Environmental Resource Center (BERC) for SMUD's environmental activities.
- ***Business Partner Honor*** from the Sacramento City Unified School District for supporting with time, energy and mentorship the Sacramento City Unified School District's high school career development and related programs.
- ***Champions of Energy Efficiency Award*** from the American Council for an Energy Efficient Economy (ACEEE) for SMUD's long-standing commitment to energy efficiency.
- ***Business Achievement Award*** from the Solar Electric Power Association (SEPA) in recognition of SMUD's development of solar communities.
- ***Energy Conservation Award*** from the National Energy Resources Organization (NERO) for long-term commitment to energy efficiency.
- ***World Wildlife Fund Award*** for commitment to the environment
- ***Residential ENERGY STAR® Partner of the Year Award*** for Regional, State and Community Leadership in Energy Efficiency.
- ***Beacon Award*** from the U.S. Environmental Protection Agency (EPA), the U.S. Department of Energy (DOE), and the Center for Resource Solutions (CRS), for SMUD's Greenergy® program for innovative marketing for SMUD's "Give a Little - Get a Latte" promotion with Starbucks.
- ***Project of the Year Award*** from the Electric Light and Power Magazine for the marketing of the HomePower Program.
- ***Tree Line USA Award*** from the U.S. Dept. of Forestry for SMUD's Shade Tree Program.
- ***1st Place Awards*** (4) from the National Fuel Funds Network for SMUD's EnergyHELP Program.

- ***Top Ten Ranking*** from the National Renewable Energy Laboratory for SMUD's Greenergy[®] program every year since the list was published - 2000, 2001, 2002, 2003, 2004.
- ***Utility Marketing's Project of the Year Award*** from the Energy Marketing and Customer Service Conference for SMUD's HomePower program.
- ***Award for Excellence for Best Product/Service Launch*** from the Energy Planning Network for SMUD's HomePower program.
- ***Publication Excellence Award*** from Communication Concepts, a national communications organization, for SMUD's Annual Report.

2003

- ***Partner of Distinction Award*** from the Hispanic Chamber of Commerce for ongoing support of the Alliance for Business and Community.
- ***Clean Air Award*** from the American Lung Association for SMUD's ten-year effort to support programs that reduce NOx emissions and clean the air.
- ***Architectural Merit Award*** from the Sacramento Old City Association for SMUD's work on the renovation of historic Station A.
- ***Industry Support Award*** from the Sacramento Engineering Technology Regional Consortium for SMUD's role in promoting educator awareness of new and emerging renewable energy technologies.
- ***Industry Support Award*** from the Los Rios/Cosumnes' College Mathematics, Engineering & Science Achievement (MESA) Program for SMUD's role in promoting educator awareness of new and emerging renewable energy technologies.
- ***Best Workplace for Commuters Award*** from the U.S. Environmental Protection Agency for establishing commuter benefits that achieve a national standard of excellence.
- ***Partnership Award*** from the American Institute of Architects for the educational programs of SMUD's Energy and Technology Center that promote environmental responsibility in the design and building industry.
- ***Tree Line USA Award*** from the U.S. Dept. of Forestry for SMUD's Shade Tree Program.
- ***Exemplary Energy Efficiency Program Award*** from the American Council for an Energy Efficiency Economy (ACEEE) for SMUD's Refrigerator Recycling Program.
- ***Corporate Award for Excellence in Support of Low-Income Customers*** from the National Fuel Funds Network.
- ***Community Service/Resource Efficiency Awards*** from the California Municipal Utilities Association for both Refrigerator Recycling and Cool Roof programs.

2002

- ***Community Organization of the Year Award*** from the Sacramento Hispanic Chamber of Commerce.

- ***Community Service Award*** from the Sacramento Black Chamber of Commerce.
- ***ENERGY STAR® Partner of the Year Award*** for Consumer Education.
- ***Community Service/Resource Efficiency Award*** from the California Municipal Utilities Association (CMUA) for SMUD's Aroseal Duct Sealing program. SMUD was also recognized by CMUA for Innovative and Comprehensive Approaches to Community Service.
- ***Tree Line USA Award*** from the U.S. Dept. of Forestry for SMUD's Shade Tree Program.
- ***Green Power Beacon Award*** from the U.S. Department of Energy presented for SMUD's Greenergy® program.

2001

- ***People Helping People Business Award*** from the Community Services Planning Council to recognize SMUD's community service activities for SMUD's Community Housing Coalition.
- ***ENERGY STAR® Special Award*** for SMUD's efforts to assist the Sacramento small business community improve energy efficiency.
- ***International Energy Globe Award*** from an international panel of judges from energy utilities throughout the world for the installation of more than 8,500 kilowatts of photovoltaics through SMUD's solar programs.
- ***Department of Transportation Award*** for SMUD's partnership efforts to support low-emission airport vehicles.

- b. **List number of employees by category: executive management, professional, operational, etc.**

CURRENT STAFFING LEVEL

Job Categories	# as of 6/30/05
Executive	39
Area Head	109
Engineer	96
Engineer Supervisor	6
Professional	514
Professional Supervisor	105
Technician	218
Technician Supervisor	18
Protective Service Worker	50
Paraprofessional	105
Administrative Support	468
Administrative Support Supervisor	50
Skilled Craft, Electrical	225
Skilled Craft, Mechanical	42
Skilled Craft, Power Plant	9
Skilled Craft, Other	66
Skilled Craft Supervisor	134
Service Maintenance Worker	67
Service Maintenance Worker Supervisor	7
Apprentice	93
TOTAL	2421

(See SMUD Application, Section IV.B.5.a.(2)(i), Operation and Maintenance.)

- c. **Describe internal reorganizations within the past three years; list job titles or positions that have been eliminated; provide pre and post-reorganization charts.**

SMUD continually reviews its business processes for opportunities to increase efficiency, lower costs and improve service. Over the past eight years, SMUD has reviewed most of its business processes to determine if customer service requirements are being met and if the costs of performing processes can be lowered and service improved. Over the past three years SMUD has completed the reorganization of five (5) areas. They are:

- Business Technology and Change Management (2004/2005),
- Administrative Services and Business Planning (2004),
- General Services (2004),
- Energy Trading and Contracts (2004), and
- Customer Services (2003).

These reorganizations are described in detail below. See Attachment N for pre- and post-reorganization organization charts.

Business Technology and Change Management (BTCM) (2004/2005)

The BTCM reorganization was a result of a SMUD reengineering study. Executive Management commissioned an employee team to review existing BTCM business processes. The study determined that SMUD's information technology planning, operation, maintenance, and project management were being performed by different groups within BTCM without adequate coordination, which lead to operational inefficiencies. In addition, the study found that client departments requiring the services of BTCM would benefit by having a single point of contact to address their technology needs.

SMUD reorganized BTCM processes in order to centralize the planning, operations, maintenance, project management and change management processes. In addition, SMUD business units have been assigned program managers to provide direct assistance in the planning and management of their technology requirements.

1. Prior to Reorganization

Prior to reorganization, the managers of BTCM processes were each responsible for analysis, development, operation, maintenance, and project management of technology, as follows:

Manager, Information & Technology Services

- Infrastructure Project Management
- Technical Developers
- Network Administration and Operations
- Training

Manager, Enterprise System Support Center

- SAP Project Management
- SAP Administration and Operations
- SAP Training
- SAP Analyst
- SAP Technical Developers

Supervisor, Business Applications

- Web Application Project Management
- Web Application Analyst
- Web Application Technical Development
- Web Application Support

Supervisor Change Management

- Change Management

2. After Reorganization

After reorganization, responsibility for operation and maintenance of all SMUD technology was centralized under the Manager, Technical Operations. Responsibility for analysis, development, and project management for all SMUD technology was centralized under the Manager, Business Technology Projects. Responsibility for technology planning, hiring, and employee development was centralized under the Supervisor, Application and Development Resource Center. Finally, the responsibility for change management and technology training was centralized under the Supervisor, Change Management

3. Job Title Changes

Several business technology jobs titles (I/T Supervisors, I/T Project Managers, Principal and Senior I/T levels) were consolidated into three (3) new classifications as a result of the BTCM study:

- Business Technology Program Manager,
- Project Integration Manager, and
- Supervisor, Application Development Resource Center.

Administrative Services and Business Planning (2004)

SMUD reorganized the areas of Administrative Services and Business Planning in 2004. The reorganization included the Assistant General Manager (AGM), Administrative Services and the Chief Risk Officer/Director, Business Planning and Budget. This reorganization centralized SMUD's planning and financial processes under the Chief Financial Officer, previously the Chief Risk Officer/Director, Business Planning and Budget. In addition, administrative services were centralized under the AGM, Administrative Services.

1. Prior to Reorganization

The Assistant General Manager (AGM), Administrative Services was also the District's Chief Financial Officer (CFO). The AGM, Administrative Services/CFO was responsible for the following departments:

- Accounting & Controller,
- Treasury & Treasurer
- Human Resources,
- General Services,
- Labor Relations, and
- Supply Chain Services
- Administrative Health, Safety and Environmental Services

The Chief Risk Officer/Director, Business Planning and Budget was responsible for SMUD's business planning and budget.

2. After the Reorganization

The responsibilities of the CFO were transferred from the AGM, Administrated Services to the Chief Risk Officer/Director, Business Planning and Budget. The Chief Risk Office/Director title was changed to Chief Financial Officer. In addition, responsibility for the departments of Accounting & Controller and Treasury & Treasurer were transferred to the new CFO. The AGM, Administrative Services was assigned the new areas of Diversity Leadership and enterprise-wide Asset Protection, Safety, and Emergency Services.

AGM, Administrative Services (previously AGM, Administrative Services/CFO) departments now include:

- Human Resources,
- General Services,
- Labor Relations,
- Supply Chain Services,
- Diversity Leadership (newly created), and
- Asset Protection, Safety, and Emergency Services (newly created)

Chief Financial Officer (previously Chief Risk Officer/Director, Business Planning and Budget) departments now include:

- Budget,
- Business Planning,
- Accounting & Controller, and
- Treasury & Treasurer

3. Job Title Changes

From: AGM, Administrative Services & Chief Financial Officer
To: AGM, Administrative Services

From: Chief Risk Officer & Director, Business Planning & Budget
To: Chief Financial Officer

4. New Positions/Titles

- Manager, Diversity Leadership– reports to AGM, Administrative Services, and
- Manager, Protection, Safety, and Emergency Services reports to AGM, Administrative Services.

General Services (2004)

The 2004 General Services reorganization was a result of a SMUD reengineering study. General Services consisted of Asset Protection, Facility Management, Facility Maintenance, Transportation, and Image Production and Postal Services. Executive Management commissioned an employee team to review existing General Service's business processes. The review indicated that General Services was organized into functional areas with planning, work performance, hiring, and training performed throughout the organization with limited coordination. In addition, due to recent changes in regulatory requirements, the review team determined SMUD's Asset Protection processes could be better aligned with safety, environmental, and emergency planning and response processes in place in other areas within SMUD.

In response to the team's recommendations, management combined Facilities Management and Facilities Maintenance to centralize: the planning, design, construction, and maintenance of SMUD buildings and properties; the training, hiring, and scheduling of facility Craft Workers and Utility Workers; and fleet planning, work scheduling, and employee training and development processes. In addition, management consolidated Asset Protection with Safety, Environmental, and Emergency Planning and Response in a single, newly created department reporting to the AGM, Administrative Services.

1. Prior to Reorganization

- **Manager, General Services**
 - Supervisor, Facilities Management
 - Supervisor, Facilities Maintenance
 - ✓ Craft Workers/Utility Workers report to various supervisors
 - Supervisor, Transportation
 - ✓ Fleet personnel report to various shift supervisors
 - Supervisor, Asset Protection
 - Supervisor, Image Production and Postal Services

2. After the Reorganization

- **Manager, General Services**
 - Supervisor, Facilities Management (includes Maintenance)
 - ✓ Supervisor, Craft Workers
 - ✓ Supervisor, Utility Workers
 - Supervisor, Transportation
 - ✓ Fleet Maintenance Scheduler
 - ✓ Fleet Asset Coordinator
 - ✓ Training and Compliance Coordinator
 - ✓ Fleet personnel report to various supervisors
 - Supervisor, Asset Protection (Transferred to another department)
 - Supervisor, Image Production and Postal Services

3. New Positions/ Titles:

- Fleet Asset Coordinator
- Fleet Maintenance Scheduler
- Training and Compliance Coordinator
- Manager, Protection, Safety And Emergency Services

Accounting & Controller and Energy Trading & Contracts (2004)

After an independent audit and in compliance with the newly developed Energy Risk Management Policy, the Energy Settlements Unit transferred from the Energy Trading & Contracts Department into the Accounting Department in 2004. To enhance the level of controls and checks and balances for the approval of and accounting for energy transactions, it was determined that these processes were best located under SMUD's Accounting & Controller organization.

1. Prior to Reorganization

The Energy Settlements Unit reported to the Supervisor, Scheduling and Settlements within the Energy Trading Department.

2. After the Reorganization

The Energy Settlements Unit reports to the new Supervisor, Energy Settlements within the Accounting & Controller Department.

3. New Position Title

- Energy Coordinator (title change from Supervisor, Scheduling and Settlements)
- Supervisor, Energy Settlements

Customer Services (2003)

The Customer Services Business Unit added new classifications to the Account Representative series in order to assist commercial customers whose needs differ from residential customers. These representatives provide a single point of contact for commercial customer services/questions.

1. Job Title Changes

- Account Representative IV (title change from Key Account Representative)

2. New Positions/Titles

- Account Representative I,
- Lead Account Representative I,
- Account Representative II, and
- Account Representative III

- d. List number of annual terminations, resignations and retirements, which have occurred in each category, for the previous three years.

RETIREMENTS (2002 TO 2004)

Job Category		Retirements			
		2002	2003	2004	Total
1	Executive	0	2	1	3
2	Area Head	2	2	3	7
3	Engineer	0	7	8	15
4	Engineer Supv	2	2	3	7
5	Professional	21	12	23	56
6	Professional Supv	3	7	2	12
7	Technician	12	15	20	47
8	Technician Supv	4	3	1	8
9	Protective Service Worker	0	1	3	4
10	Paraprofessional	1	3	4	8
11	Admin Support	12	12	9	33
12	Admin Support Supv	1	3	3	7
13	Skilled Craft, Electrical	11	13	13	37
14	Skilled Craft, Mechanical	4	0	6	10
15	Skilled Craft, Power Plant	2	1	4	7
16	Skilled Craft, Other	2	5	3	10
17	Skilled Craft Supv	5	4	0	9
18	Service Maint Worker	2	2	2	6
19	Service Maint Worker Supv	0	0	1	1
20	Apprentice	0	0	0	0
TOTAL		84	94	109	287

RESIGNATIONS/END OF ASSIGNMENTS (2002 TO 2004)

	Job Category	Resignations			
		2002	2003	2004	Total
1	Executive	1	0	0	1
2	Area Head	0	0	0	0
3	Engineer	2	0	0	2
4	Engineer Supv	0	0	0	0
5	Professional	2	4	11	17
6	Professional Supv	3	2	1	6
7	Technician	1	0	1	2
8	Technician Supv	0	1	0	1
9	Protective Service Worker	1	0	0	1
10	Paraprofessional	2	1	3	6
11	Admin Support	5	11	5	21
12	Admin Support Supv	0	1	0	1
13	Skilled Craft, Electrical	2	5	3	10
14	Skilled Craft, Mechanical	0	0	0	0
15	Skilled Craft, Power Plant	0	1	0	1
16	Skilled Craft, Other	0	1	2	3
17	Skilled Craft Supv	0	0	0	0
18	Service Maint Worker	1	5	3	9
19	Service Maint Worker Supv	0	0	0	0
20	Apprentice	5	18	1	24
	TOTAL	25	50	30	105

**TERMINATIONS (DISCIPLINE/REJECTED PROBATION/MUTUAL AGREEMENT)
(2002 TO 2004)**

	Job Category	Terminations (Discipline/Rejected Probation)			
		2002	2003	2004	Total
1	Executive	0	0	0	0
2	Area Head	0	1	0	1
3	Engineer	1	0	0	1
4	Engineer Supv	0	0	0	0
5	Professional	3	2	3	8
6	Professional Supv	0	0	0	0
7	Technician	0	1	1	2
8	Technician Supv	0	0	0	0
9	Protective Service Worker	0	0	1	1
10	Paraprofessional	1	0	0	1
11	Admin Support	4	2	3	9
12	Admin Support Supv	0	0	0	0
13	Skilled Craft, Electrical	3	4	0	7
14	Skilled Craft, Mechanical	0	0	0	0
15	Skilled Craft, Power Plant	0	0	0	0
16	Skilled Craft, Other	0	1	0	1
17	Skilled Craft Supv	0	0	0	0
18	Service Maint Worker	1	0	0	1
19	Service Maint Worker Supv	0	0	0	0
20	Apprentice	1	1	1	3
	TOTAL	14	12	9	35

e. Describe positions that have remained vacant during the past three years.

No positions have remained vacant during the past three years. In general, positions that remain vacant for more than 1 year are identified by budget planning and referred to the responsible area for action, including position deletion.

f. Describe training and personnel policies.

As the baby boom generation ages, SMUD and other utilities will need to replace a large percentage of employees. SMUD has increased its recruitment and training efforts for line workers and other skilled positions where experience is crucial. With about half of its work force nearing the traditional retirement age, SMUD has a workforce plan that includes:

- Establishing new apprenticeship programs in various disciplines;
- Having employees shadow people who are about to retire, and
- Bringing back retired employees for training purposes.

Given these needs, SMUD has an opportunity to strengthen employee diversity and to hire employees with an appropriate mix of knowledge, skills and abilities to apply new technology. In an effort to reach active and passive applicants and increase the diversity of our work force, the District has developed multiple recruitment strategies. Included in these strategies are the use of technology/internet tools such as targeted banner ads, direct e-mails, and links to our website and the development of partnerships with various community agencies.

SMUD has a multi-part New Employee Orientation (NEO) program to ensure new employees are well informed and make a successful transition into the workplace. NEO includes orientation to the District (including history, mission and values), to the Business Unit or Department (outlining information essential to help them be successful in their job) and to the Executive Management team (to gain exposure to the breadth of work and opportunities at the District and demonstrate senior management's commitment to each new employee's success). Our program also includes a Partnering Program that matches new employees with a "buddy"/resource person for 90 days. The peer partner acts as a sounding board or "go to" person to answer any questions and help orient the new employee to the organization and culture.

In 2004, SMUD started or expanded apprentice programs for all of its skilled trades and developed technical curriculum for designers and engineers. These programs, which typically take four to five years to complete, will ensure that SMUD has qualified staff in key positions to

offset expected attrition.

SMUD's training policies help provide an enriching environment for employees by not only providing for professional advancement, but for personal development as well. SMUD's programs include providing for tuition/book reimbursement of up to \$1,500.00 per year for post-secondary degree and certification programs. SMUD's training policies are described in Attachment O.

Standard District Policies (SDPs) inform employees about SMUD's rules, procedures and expectations. SDP's also include topics that are required by Federal and State laws and provide supervisors and managers with guidelines to apply policies consistently and in accordance with the District's internal operations as well as the intent of these laws and regulations. A presentation on the District's personnel policies is included in Attachment P, Introduction to District's Standard District Policy.

g. Are salaries and pay scales comparable/competitive with regional and industry standards?

Yes. The District ensures the competitiveness of its salaries and related salary structure by conducting and utilizing market surveys of industry and the local labor market.

The District performs market surveys every 3 to 5 years to measure the competitiveness of its pay package. The District surveys a standard set of organizations that includes local, utility specific, state and/or national organizations that compete for the same employee resources that SMUD does. Survey job matches are based on a comparison of the job duties between District job classifications and the survey organizations' job classifications and are not based on job title matches only.

The resulting survey statistics, including the market average, median, and percentile data, allow the District to gauge the competitiveness of its salaries and salary structure against the surveyed organizations. As a general rule, the District strives to provide competitive pay that is within +/- 5% of the Market Survey Average. Based on survey results, SMUD adjusts salaries as necessary to ensure that it maintains its ability to hire and retain qualified employees.

h. Is organization structure similar with like service providers? Describe any differences.

Since 1915, municipal utility districts like SMUD have been authorized, pursuant to the California Municipal Utility District (MUD) Act, to supply

and distribute electricity to the residents, businesses and public agencies within its district boundaries. A locally elected and accountable Board of Directors from seven wards governs SMUD. The SMUD Board of Directors establishes policy, oversees and monitors the organization's performance, and hires the General Manager and General Counsel.

SMUD's General Manager heads three (3) business units:

- Energy Supply,
- Energy Delivery and Customer Services, and
- Administrative Services.

Besides these three primary business units, other areas that report directly to the General Manager include the General Counsel's Office, Audit Services, Government and Community Affairs, Business Technology & Change Management and Business Planning and Budget. In addition, the General Counsel also reports directly to the Board of Directors.

Other providers of electric services have structures that vary depending on whether they are a publicly owned utility or an investor owned utility. Publicly owned utilities can take the form of 1) municipal utility districts, 2) municipal utilities (that operate as a city department within a larger city structure), 3) public utility districts, 4) irrigation districts, or 5) Joint Power Authorities. All publicly owned utilities are governed by elected officials or bodies appointed by elected officials. Investor owned utilities operate within a corporate structure that includes a corporate Board of Directors and are owned by shareholders.

In general, regardless of the organization structure, all electric utility organizations have departments or business units performing resource or energy supply, energy delivery, customer service and administrative functions similar to SMUD's. In addition, both municipal utilities and investor-owned utilities are typically operated as regulated monopolies. Typically, local elected officials regulate the activities (including establishing rates and conditions of service) of municipal utilities. Investor-owned utilities are regulated by the California Public Utilities Commission.

However, there are some distinct differences between Publicly owned utilities and investor owned utilities. Publicly owned utilities are governmental or quasi-governmental agencies ultimately controlled by their respective customers. In contrast, investor owned utilities are owned by shareholders. Publicly owned utilities are required to conduct business in open, public meetings whereas investor owned utilities conduct business in Board meetings that are not open to the public. Further, a number of investor owned utility issues, including ratemaking, are subject to California Public Utilities Commission (CPUC) approval. The CPUC is located in San Francisco; participation in CPUC proceedings can be

time-consuming and expensive. Investor owned utilities pay dividends to shareholders whereas publicly owned utilities re-invest any net income in their electrical systems and customer programs.

III. FINANCING CONSTRAINTS AND OPPORTUNITIES/ OPPORTUNITIES FOR RATE RESTRUCTURING

a. Describe rate setting methodology

SMUD's rate setting authority is set forth in the Municipal Utility District (MUD) Act (Sections 11501 through 14403.5 of the California Public Utilities Code), and is implemented by SMUD's Board of Directors and the General Manager in compliance with SMUD Ordinance 91-1. Much of SMUD Ordinance 91-1 is directed providing substantive public outreach, comment opportunities and education any time SMUD is considering adjusting its Rates, Rules and Regulations. The public outreach requirements of the Ordinance exceed the public review requirements of the MUD Act. The entire rate setting process can take between 45 and 90 days.

SMUD's rate setting philosophy and practice designs and establishes rates that reflect cost of service by rate class, but also provide customers alternatives that encourage energy conservation and provide opportunities to take advantage of new technologies and service options. SMUD's rate setting philosophy also ensures that:

- Rates remain competitive with other electric service providers
- Equity is maintained between customer classes
- Rate structures provide a strong financial foundation for the District.

SMUD's rate philosophy is guided by rate design objectives adopted by the Board of Directors:

1. Maintain long-term financial stability.
2. Reflect equitable allocation of costs across customer classes.
3. Encourage energy efficiency.
4. Be price competitive with neighboring utilities.
5. Offer economic development discounts for new or expanding commercial customers.
6. Be easy to administer, simply constructed and easy to understand.

In general, SMUD's rate setting process includes the following steps:

1. Determination of need for rate change
2. General Manager filing of Report and Recommendations
3. Public Notice Process
4. Community Outreach through two or more publicly noticed workshops
5. One or more Public Hearings
6. Review and Comment Period

7. Board of Directors introduction of the rate resolution(s) at a publicly noticed hearing with adoption at a separate publicly noticed meeting

SMUD'S rates are comprised of the following components:

- Customer charges: A fixed price paid monthly that does not depend on how much energy customers consume. It covers fixed costs for metering, billing and customer service.
- Energy charges: Charges based on the amount of energy used. These charges can be applied based on season, time of use, and how much a customer consumes (energy tiers).
- Electric demand and facility charges: Demand charges cover shared capacity costs (distribution, transmission and generation) and are applied for electric capacity required or demanded. Facility charges cover dedicated distribution equipment for a customer. Demand and facility charges can also change based on season and time of use.³

SMUD's rate setting methodology employs standard industry practices, including the use of:

- Load Research Data to statistically describe load patterns by customer class
- Marginal and Embedded Cost methodologies to calculate the costs to serve our customers

(See SMUD Application, Section III.C, Allocation of Benefits.)

b. Describe all revenue sources (i.e. property taxes, special taxes, service charges, fees, assessments, grants, etc.).

The vast majority of SMUD's revenues are collected through electric rates charged to SMUD's approximately 575,000 customers. SMUD does not presently levy taxes, and currently has no plans to do so.

In addition to electric rates, other revenues come from sales of excess energy, capacity, and natural gas in wholesale markets, investments, customer contributions that support electric service extensions and services, sales of electric ancillary services,⁴ research grants, and SMUD's customer programs. Some SMUD programs that generate revenue include:

³ See Attachment Q, SMUD's Rates, Rules and Regulations for a description of all of SMUD's rates.

⁴ Reliability services defined by the Federal Energy Regulatory Commission, such as voltage support. Ancillary services include spinning and non-spinning reserves, blackstart, etc.

- Greenergy[®]: Sale of electricity derived from environmentally friendly sources. Customers pay either a fixed amount on their bill or an amount based on the amount of energy they use. This option is available to both residential and commercial customers.
- HomePower: Residential home electric equipment insurance. Customers pay a fixed fee of \$5.95 per month for this service.
- Power Protection Services: Whole house and individual surge protection. Customers receive a hard wired surge protector near their meter for \$6.95 per month
- Energy Tracking Services: Commercial energy monitoring and tracking services. Customers pay based on the number of installed meters and for access to the system.
- Moving Connections: Allows residential customers to sign up quickly and easily with multiple service providers with one phone call to SMUD for a fee. SMUD receives compensation from All Connect for customers using this service.

(See SMUD Application, Section III, Economic Analysis of Annexation.)

c. Explain constraints associated with agency’s ability to generate revenue. What options are available – special assessments/special taxes/increases in sales tax, etc?

Under the MUD Act, the SMUD Board of Directors has the sole authority to determine the revenues required to operate SMUD and to set rates. The MUD Act also authorizes municipal utility districts like SMUD to issue bonds, impose assessments, make investments, and impose taxes. SMUD currently imposes no assessments or taxes for its own use in its existing service area.⁵

Other than the parameters established by the MUD Act, and the measures and policies adopted by SMUD's Board of Directors to implement the MUD Act, SMUD's ability to raise revenue generally is not constrained. District rate processes are governed by provisions of the MUD Act and policies adopted by SMUD’s Board of Directors and are described in detail above.

SMUD practices comprehensive short-term and long-term risk management to limit exposure to significant revenue risks, including volatility in natural gas and electricity market prices, credit risks, seasonal hydrology risks, and regulatory driven changes in the industry. To ensure continued financial stability and integrity, SMUD has implemented a plan to achieve an equity target of 20% by 2007, and beginning in 2008 SMUD

⁵ SMUD collects certain taxes or assessments, such as a utility users tax and the state surcharge, from all its customers on a pass-through basis for other agencies.

will ensure that its target cash coverage of all debt service payments (fixed charge ratio) is 1.3 to 1.5 times.⁶

d. Describe policies and procedures for limiting expenditures, which staff may make, without board/council approval.

SMUD's Board Resolution 04-12-10, adopting the 2005 Annual Budget (Attachment B), states, "For purposes of Section 11891.6 of the Municipal Utility District Act, there shall be deemed added to each line item a 10 percent contingency. Requests against SMUD which relate to obligations incurred for each line item and are within such line item amount plus the 10 percent contingency may be paid without prior specific approval of this Board, provided the total of such payments during 2005 may not exceed the total budget amount of \$1,260,566,000 plus adjustments for weather hedge contracts and higher retail sales as set forth in paragraphs (b) and (c) above."⁷ Resolution 04-12-10, (Section 2.d.) The line items referenced are individual amounts directly specified in the Board Resolution adopting the budget. Actual expenditures are reviewed with the Board monthly.

The Board of Directors delegates authority for the operation and administration of the District to the General Manager as directed in SMUD Board Linkage Policy 6 and further defines the procurement delegation of authority in SMUD Board Linkage Policy 7 (both policies are found in SMUD's Board-Staff Linkage Policies, Attachment T). The Board has also delegated certain authority around wholesale energy, transmission, and natural gas transactions to the General Manager.⁸ The General Manager further delegates authority for expenditures through Standard District Procedure 3.3, Delegation of Authority (Attachment R), which establishes authorization levels within the management chain and provides specific direction as to delegation of expenditure authorization. Written monitoring reports of authorized expenditures and delegations of authority are provided to the Board on a regular basis. In addition, on a quarterly basis, staff presents a procurement activity report to the Board at a publicly noticed meeting. Audits are performed by SMUD's Internal Audit group to ensure compliance with the Standard District Policy (See Attachment P for Standard District Policy overview) and are reported to the General Manager and Board. Transactions and decisions outside of the written delegations to the General Manager are brought to the Board for consideration at publicly noticed meetings.

Strategic planning is the first step in determining budget constraints and is provided by SMUD Board of Directors Strategic Directives (Attachment

⁶ Attachment E, Staff Implementation Plan of Board Strategic Directives, Page 11.

⁷ The recently adopted resolution approving the 2006 budget includes similar language.

⁸ Energy Risk Management Policy, Attachment Z.

S). The Strategic Direction policies established by the Board address customer concerns, ranging from competitive rates, to service reliability and the environment. In most of these areas, the Board has also identified specific objectives and ways to measure staff's success in meeting those desired objectives. The first key value addressed is competitive rates with a performance measure of maintaining the system average rate at least 10 percent below PG&E's system average rate. This effectively puts an upper limit on available dollars to fund the budget, though in actual practice, lower budget limits have been set resulting in system average rates at least 21% below PG&E's. SMUD management and staff develop an implementation plan to achieve the Board's objectives. The implementation plan sets organization-wide processes that allocate resources to meet or exceed the Board's strategic directives.

The Staff Implementation Plan of Board Strategic Directives (Attachment E) provides high-level plans to staff in carrying out Board direction. Specific 3-Year Operating Plans are developed by each Business Unit which accomplish the requirements of the Staff Implementation Plan (and thereby Board Strategic Direction).

Early in the planning process, SMUD's Management develops and prioritizes initiatives, programs and capital projects to align with Board Strategic Directives and develop Three-Year Operational Plans, which includes performance metrics, at the Business Unit level. Business Units develop the three-year plan including additional initiatives and performance metrics targets and identify any specific Segment objectives, targets and capital projects.

The Three-Year Operational Plan, including capital projects, is the ***foundation for planning work and resources at the business process level*** to meet District Strategic Directives, and Business Unit and Segment initiatives, goals and objectives. Annually, each Business Unit develops a detailed Operational Plan, or "work plan", determining the focus of work in the upcoming plan and budget year and ensuring that necessary resources are available and committed to support the first year of the three-year plan. Additionally, Capital Projects are prioritized District-wide prior to planning the annual budget.

As the Operational Plans are completed, the first-year budget is developed to support the work plans, reconciled to ensure Business Units meet established financial and customer targets, reviewed by Business Unit Leaders, and documented and presented to the Board of Directors who approve the Annual District Budget.

Annual Employee Performance Plans are developed to meet the performance goals in the Operational Plans which include budget targets.

Performance Management is ongoing with quarterly reports of Business Unit Performance (including budget targets) provided to executive management and the Board of Directors.

In addition to internal reporting and audits, an outside auditor performs an annual audit of District financial practices and accounting results. An executive summary of this audit is generally published with the District Annual Report.

e. Provide a summary of annual legal expenditures for the past three years; segregate expenditures associated with settling claims by employees or other parties and describe the justification for each settlement.

Under Section 11939 of the MUD Act, the General Counsel is authorized to take charge of all suits and other legal matters the district is a party or in which it is legally interested. Annual legal expenditures for the three past years are as follows:

2003 - \$ 4,395,629
2004 - \$ 6,247,639
2005 – \$ 9,615,880 (YTD through August)

The Board of Directors has delegated authority to the General Manager to settle claims or litigation up to \$100,000 and workers' compensation claims up to SMUD's self-insured retention limits. Attachment AA is a summary of settlements entered into by SMUD over the last three years.

f. Explain the agency's bond rating; discuss reason for rating. Discuss amount and use of existing debt. Describe proposed financing and debt requirements.

SMUD is currently rated "A" by Standard & Poor's, "A1" by Moody's and "A" by Fitch. Rating agencies have cited the rebuilding of the rate stabilization fund and improved debt coverage ratios as important contributors to SMUD's strong credit ratings. SMUD's goal of improving its equity position to 20% of capitalization is also cited by all the agencies as a positive factor, in addition to SMUD's strong risk management program and competitive rates. Other fundamental strengths mentioned are the quality of SMUD's management and the willingness of the SMUD Board to adjust rates to maintain SMUD's financial strength. Credit concerns listed by the rating agencies include gas commodity exposure, uncertainty about the California electricity market, relatively high amount of leverage on the balance sheet, and hydro license renewal risk.

SMUD currently has approximately \$2.6 billion of debt outstanding and borrows primarily to reimburse itself for long-term capital investment in generation, transmission and distribution infrastructure. In addition, SMUD financed the natural gas reserve purchase and acquisition of its gas pipeline system.

For the period 2005 through 2009, SMUD has projected capital requirements of approximately \$790 million (excluding any costs associated with annexation), as shown below. SMUD has issued and currently has outstanding \$100 million of commercial paper notes to temporarily finance construction of the Cosumnes Power Plant (CPP). SMUD plans to issue an additional \$100 million of commercial paper notes in the next six months to complete construction of the plant. SMUD intends to take out the commercial paper by entering into a permanent financing arrangement with the Sacramento Municipal Utility District Financing Authority (a joint powers agency controlled by the SMUD Board of Directors) for the CPP in the approximate amount of \$300 million using a non-recourse joint powers authority structure.

The following table outlines expected capital requirements over the next five years. The table does not include the costs associated with the potential annexation of PG&E service territory in Yolo County.

(See SMUD Application, Section III.B, Expected Benefits and letter from SMUD General Counsel to P. Brundage, LAFCo (November 7, 2005).)

**Estimated Capital Requirements
(Dollars in Thousands)**

	<u>Service Area and Other System Improvements Including Distribution System</u>	<u>Improvements to Existing Generation Plant</u>	<u>General Plant</u>	<u>Cosumnes Plant</u>	<u>Total Capital Requirements</u>
2005	\$66,800	\$87,900	\$43,900	\$46,000	\$244,600
2006	64,000	42,200	33,000	-	139,200
2007	66,000	38,500	39,000	-	143,500
2008	68,000	31,000	32,000	-	131,000
2009	69,000	31,000	32,000	-	132,000

Even with the capital requirements listed in the table above, SMUD's plans to achieve a 20% equity target (i.e., no more than 80% of SMUD's assets are financed with debt) by 2007. Given SMUD's most recent financial projections, SMUD expects its equity ratio to increase to about 25-29% by 2012.

g. Describe policies and procedures for investment practices.

The District's investment practices are mainly governed by the MUD Act, California Government Code §53601, and SMUD's Investment Policy, which is reviewed and approved by the SMUD Board of Directors annually. (See Attachment AG) Consistent with California law and established policy, SMUD invests conservatively in relatively low risk investments that have a high probability of principal preservation. While safety of principal is the foremost objective of SMUD's investment policies, SMUD must balance investment returns and risk with the need to maintain adequate liquidity. SMUD's Investment Policy specifies what types of securities the District can purchase. SMUD's investment portfolio generally consists of US Treasury securities, Government Sponsored Enterprises (Agencies), commercial paper and money market funds. These activities are regularly audited by SMUD's independent outside auditor, as well as its internal auditor.

h. Describe policies and procedures for establishing and maintaining reserves/retained earnings. What is the dollar limit of reserves/retained earnings? What is the ratio of undesignated, contingency, and emergency reserves to annual gross revenue?

Reserve funds designated for specific purposes are established either by action of the Board of Directors (e.g., Nuclear Decommissioning Trust Fund, Rate Stabilization Fund) or are required by SMUD's Indenture Agreements and Bond Resolutions (e.g., Bond Interest and Principal Funds, Debt Service Reserve Funds). The Board's policy is to retain the annual increase in net assets in SMUD for use in funding capital infrastructure and as working capital, and the Board has set a strategic policy directive target of increasing net assets to 20 percent of total capitalization by the end of 2007. The only reserve fund with a specific dollar target and considered to be an emergency or contingency reserve is the Rate Stabilization Fund, which may be used with Board approval to mitigate a dry water year or high energy market prices that would cause SMUD to miss certain minimum financial targets. SMUD has an active commodity hedging strategy and program to limit exposure to water conditions and market price volatility (including natural gas price volatility). The target and current balance in the Rate Stabilization Fund is \$75 million, which is approximately 7.5 percent of annual gross revenues. As described above, the purpose of the Rate Stabilization Fund is to mitigate for dry water years and energy market volatility in order to provide rate stability and certainty for SMUD customers.

i. Explain any variances in rates, fees, taxes, etc. which are charged to agency customers. Describe rate/ fee policies.

SMUD's rates are designed to meet service requirements for individual customer classes and reflect the costs of providing electric service. (See description of SMUD's rate philosophy and methodology in Section III.a.) In addition, rates are designed to encourage conservation, provide customers with options, and reflect competitive alternatives. Major customer classes and SMUD standard rate options are listed below:

- **Residential**
 - Standard Service
 - Low Income Discount
 - Medical Equipment Discount
 - Well Pump allowance
 - Winter Electric Heat Allowance
 - Time-of-Use options
- **Small Commercial**
 - Seasonal Energy
 - Demand metered
 - Optional Time-Of-Use
- **Medium & Large Commercial/Industrial**
 - Time-of-Use with service voltage differentiation
 - Economic Development Discount⁹
- **Lighting**
 - Traffic Lights
 - Street Lights
 - Night or Security Lighting
- **Agricultural**
 - Small Agricultural
 - Large Agricultural
 - Time-of-Use

SMUD's Implementation Plan guides class-specific rate designs and promotes competitive rates, equitable allocation of costs between and within customer classes, and ensures SMUD remains financially stable with sufficient access to credit markets. SMUD's rates do not vary within customer and rate classes; however, customers may seek service extensions or special facilities that result in additional costs for those customers.

⁹ All commercial customers with loads greater than 299 kW are eligible for this multi-year discount, based on a minimum job growth of 50 new permanent employees. In addition, the Board of Directors has the discretionary power to approve a custom-tailored agreement with a large commercial or industrial customer, which incorporates discounts from the otherwise standard rate.

SMUD does not levy taxes, but it does collect municipal taxes on behalf of certain cities and the County of Sacramento as a percentage of billed revenue¹⁰. SMUD also passes through the California Energy Resources surcharge on metered energy use.¹¹

(See SMUD Application, Section III, Economic Analysis of Annexation.)

j. Explain policies and procedures for fee rebates, tax credits, or other relief given to agency customers. Provide details of any rebates, etc. issued during the past three years.

SMUD provides a variety of incentives or discounts consistent with District core values. As part of a comprehensive strategic planning process, the Board gained input from customers, outside experts and community representatives regarding major rate policies. The Board decided it would maintain competitive rates that were at least 10% below PG&E system average rates; maintain competitive rates for each customer class; and equitably allocate costs within customer classes. To this end, low income and Medical Life Support programs were enhanced.

The Board further decided it would invest in energy efficiency that is cost effective and verifiable when compared with other energy supply alternatives in order to reduce peak usage per customer and lower the cost to serve customers. The Board also stated a core value was to promote local and regional economic development and, therefore, SMUD would assist in retaining, recruiting and growing rate-paying businesses in order to build and maintain a healthy and inclusive commercial and industrial customer base that benefits all customer classes. The following discount programs and incentives reflect the core values established by the SMUD Board:

- Low income – Qualifying residential customers receive a discount of 30% to 35% off their electricity bill,
- Medical Life Support – Qualifying residential customers receive a discount of 30% to 35% off their electricity bill,
- Energy Efficiency – Programs encourage customers to implement energy efficiency measures that exceed State and Federal standards. These programs are available to both residential and commercial customers with approximately \$15 million in program funding,

¹⁰ Jurisdictions that apply a utility tax include the City of Sacramento (7.5%), the County of Sacramento (2.5%) and the Cities of Elk Grove, Citrus Heights and Rancho Cordova (all at 2.5%).

¹¹ This state-mandated surcharge is subject to annual review and possible revision, but cannot exceed \$0.0003 per kilowatt-hour.

- Economic Development – Eligible commercial customers receive an average discount of 2.5% off the total bill, over a five-year period,
- Customer Tailored Agreements – Eligible commercial customers are billed under mutually beneficial contracts which ensure cost recovery for SMUD while providing a rate benefit to the customers. These types of contracts include curtailment options, increased efficiency, load modifying strategies, or new job development, and
- Demand Response Programs – Customers that allow SMUD to interrupt load receive compensation for participating in the program.

All of these programs have been available for the last three years and are important in helping SMUD meet the Board’s Strategic Directives.

k. Discuss increases or decreases in rates, fees, taxes, or other charges that have been implemented during the past three years.

SMUD rates remained unchanged for over ten years prior to May 2001. Since May 2001, SMUD's Board has authorized three rate changes – two rate decreases and a rate increase. These rate changes were adopted after the Board held 12 public meetings and conducted extensive outreach to Chambers, community groups, neighborhood associations and commercial and industrial customers to get input on the proposed rate changes. The rate changes are summarized in the following table:

Rate Changes

Date	Change	Description
May 3, 2002	3% rate decrease	Removal of hydro-surcharge
May 3, 2004	3% rate decrease	Removal of Power Supply Reserve Surcharge
March 30, 2005	6% rate increase	Response to rising gas prices

On July 1, 2005, SMUD implemented changes to residential lot fees and commercial service extension charges. Lot fees were increased from \$900 to \$1,050 per lot. Charges for service extensions for commercial new construction were update to reflect current average unit costs based on panel size.

l. Discuss opportunities for rate restructuring.

SMUD continuously monitors its rate structures to ensure:

- Rates remain competitive,
- Equity between customer classes, and

- A strong financial foundation.

SMUD's current rate designs reflect the costs of serving various customer classes and provide customers alternatives that encourage conservation and help them take advantage of new technologies or service options. As market conditions and customer needs change, SMUD's rate designs will evolve to maintain and improve customer satisfaction while meeting Board established financial goals.

(See SMUD Application, Section III, Economic Analysis.)

m. Describe policies and practices for depreciation and replacement of infrastructure.

SMUD generally computes depreciation on Plant in Service on a straight-line, service-life basis. Service lives range from 2 to 74 years, and average approximately 28 years. SMUD has systematic programs of infrastructure replacement for all major classes of assets, based on engineering estimates, inspections, and operating and maintenance history. (See description of infrastructure replacement and upgrade programs and operation and maintenance programs in Section I.e.)

SMUD has several capital replacement or refurbishment programs. These programs are:

- Underground Cable Replacement
- Pole Replacement
- Underground Cable Refurbishment
- Pole Stubbing Program

These programs evaluate the condition of the equipment as determined through testing, monitoring, and inspections. The equipment is evaluated to determine if it is economical and practical to refurbish the equipment. If it is not economical or practical to refurbish the equipment, then it will be replaced.

Additionally, the substation equipment is monitored and the condition is evaluated. When the equipment is found to be deteriorating, plans are developed for repairs or replacement to minimize the life cycle costs.

n. Describe impact of growth on current ratepayers, and need to accrue debt for capital improvements for projected growth.

New customers pay for system expansion to serve electric needs through upfront contributions and ongoing rates. On average, up front customer

contributions pay for approximately 50% of the total cost of new facilities. Residential developers pay contributions based on a residential lot fee that equals the three-year average residential cost of service rounded to the nearest \$50 (currently \$1050). Commercial customers/developers pay up front contributions based on service needs, electric facility requirements, and electric panel size. Contributions and ongoing electric rates together recover the costs of new construction, which ensures new customers do not negatively impact existing customers. The following table shows SMUD's projected capital requirements.

**Estimated Capital Requirements
(Dollars in Thousands)**

	<u>Service Area and Other System Improvements Including Distribution System</u>	<u>Improvements to Existing Generation Plant</u>	<u>General Plant</u>	<u>Cosumnes Power Plant</u>	<u>Total Capital Requirements</u>
2005	\$66,800	\$87,900	\$43,900	\$46,000	\$244,600
2006	64,000	42,200	33,000	-	139,200
2007	66,000	38,500	39,000	-	143,500
2008	68,000	31,000	32,000	-	131,000
2009	69,000	31,000	32,000	-	132,000

For the period 2005 through 2009, SMUD has projected capital requirements of approximately \$790 million (excluding any costs associated with annexation), as shown in the table above. SMUD plans to issue new debt and use customer equity to finance these capital requirements. In addition, SMUD has issued and currently has outstanding \$100 million of commercial paper notes to temporarily finance construction of CPP. SMUD plans to issue an additional \$100 million of commercial paper notes in the next six months to complete construction of CPP. SMUD intends to take out the commercial paper by entering into a permanent financing arrangement for CPP in the amount of \$290 million using a non-recourse joint powers authority structure (as described in Section V.a below).

(See SMUD Application, Section IV.B.6, Information as to How Services will be Financed.)

IV. GOVERNMENT STRUCTURE OPTIONS/LOCAL ACCOUNTABILITY AND GOVERNANCE

- a. Explain the composition of the agency's governing body and indicate if elections or appointments are at large or by district. Number of Directors, Nature/Length of Terms, indicate if governing body is landowner or population based.**

SMUD is customer owned, governed by a local, accountable and elected Board of Directors. The seven (7) Directors are elected to staggered four-year terms, and each represents a different geographic area, or ward, within SMUD's service area. In compliance with California law, the wards are as equal in number of registered voters as possible. The SMUD Board of Directors redraws ward boundaries once every ten years following the decennial census (or more often in the case of an annexation). Population within SMUD's boundary is approximately 1.3 million, with about 190,000 registered voters in each ward.

(See SMUD Application, Section IV.B.7, SMUD Governance and Section V.D, Adjustment of Ward Boundaries.)

- b. Provide a three-year history of agency election and appointment results; identify candidates and winner/appointee for each position.**

Results of the 2002 and 2004 elections are set forth in SMUD Board Resolution No. 02-12-08, adopted December 19, 2002, and Resolution No. 04-12-23, adopted December 16, 2004 (Attachment U).

- c. Explain compensation and benefits provided to the governing board, including any benefits that continue after term of service.**

In conformance with the MUD Act, the SMUD Board of Directors are entitled to receive \$150 for each attendance at Board meetings, Committee meetings, other public meetings involving SMUD and other service rendered at the request of the Board, up to a maximum of 10 days in any one calendar month (i.e., the monthly maximum compensation paid to a Board member is \$1,500). In addition, Board members are reimbursed for reasonable expenses (e.g., mileage, travel, and lodging) incurred in the performance of their official duties. With one exception, Board members are not generally eligible for benefits offered to SMUD employees. Board members with no alternative source of health insurance from another employer, including a spouse or domestic partner's employer, may elect to participate in SMUD's health insurance plan on the same terms and conditions as SMUD's professional, supervisory and security employees.

d. How frequently does the governing body meet?

The SMUD Board of Directors meets twice a month, on the first and third Thursdays of the month. Additionally, the Board's four Committees—Strategic Planning, Policy, Finance and Integrated Resources and Customer Services—each hold at least one public meeting a month. The Board Committees operate as committees of the whole.

e. Describe rules, procedures, and programs for public notification of agency operations, meetings, programs, etc. How is public participation encouraged? Are meetings accessible to the public, i.e.-evening meetings, adequate meeting space, etc.

As noted, SMUD is governed by an elected seven-member Board of Directors. Meetings of the full SMUD Board of Directors are held in the SMUD Auditorium, Headquarters Building at 6201 S Street in Sacramento, twice a month, on the first Thursday at 6:00 p.m. and on the third Thursday at 9:00 a.m. Free parking is offered to the public and light rail and bus service is conveniently nearby. The SMUD Board complies with the Ralph M. Brown Act (Brown Act), including public notice requirements related to Board meetings, Committee meetings and closed meetings of the Board. Meetings are open to the public and members of the public are welcome to speak on agenda items. Members of the public are also invited to speak on issues not listed on the agenda. The SMUD auditorium seats approximately 150 people.

The Board's four Committees—Strategic Planning, Policy, Finance and Integrated Resources and Customer Services—each hold approximately one public meeting a month, typically on a Tuesday or Wednesday at 4:30 p.m. in the SMUD Headquarters Conference Center which can seat up to 50 people. Where a Committee agenda item is expected to generate great public interest, the Committee meeting is moved to the larger SMUD auditorium. Copies of the meeting's agenda and copies of staff presentations are placed outside the meeting room for the public's use.

SMUD Board meetings are shown on Metro Cable Channel 14 at 12:00 p.m. on Sunday and 9:00 a.m. Monday following a meeting. All Board meetings, and Board Committee meetings of high public interest, can also be watched over the Internet in real time or viewed later via streaming video on www.smud.org.

Meeting agendas and a schedule of upcoming meetings are available on SMUD's website in advance of meetings. Meeting agendas are also sent to the media in advance of Board and Committee meetings. In addition to meeting Brown Act requirements, SMUD complies with other public notice requirements, such as those required for rate actions,

the California Environmental Quality Act, bond issuances, and financial reporting. In addition, for issues of public interest SMUD supplements required notifications with additional news releases, posting on the SMUD website, additional notices in community publications and radio spots.

Public outreach requirements for rate actions are specified in the MUD Act and SMUD Ordinance 91-1. The Ordinance calls for conducting at least two public workshops, and at least one public hearing and allowing a ten-day public review and comment period before Board adoption of a final Board Resolution on rate actions. Typically, SMUD goes beyond these requirements. For example, in a recent rate action, twelve public workshops were held at various locations throughout SMUD's service territory to inform customers and provide an opportunity to ask questions of Board Members and Management. Newspaper advertisements were used to announce the workshops, explain the circumstances behind the rate action, and report the result of the Board's action. The staff report and Frequently Asked Questions were available through SMUD's website. The issue was also reported in the monthly newsletter sent in customers' bills.

SMUD successfully supports all of these efforts through news releases, media interviews and seeks news and editorial coverage of SMUD issues. A public information specialist is on-call 24/365 to respond to emergency media calls such as those relating to power outages.

(See SMUD Application, Section II.D.1, SMUD.)

f. Describe public outreach efforts (i.e.-newsletters, bill inserts, website, etc.)

A recent example is the proposed annexation. Public workshops were held at SMUD during morning and evening hours and made available via the Internet in streaming video. Newspaper and radio advertisements were used to announce the workshops and promote their availability via the Web site. Also, SMUD made relevant studies available online along with Frequently Asked Questions, reports of recent developments, and a web log, to inform customers about the proposed annexation.

In general, SMUD has a significant public information program to inform customers about services and programs offered by SMUD.

Advertisements are placed in a variety of languages in ethnic publications and on ethnic radio. Additionally, a variety of English-language publications and radio stations are used to bring SMUD's issues and programs to the attention of customers. SMUD also forms partnerships with local retailers to promote SMUD programs, such as energy efficient light bulbs through local hardware stores. Also, SMUD partnered with

Jamba Juice, Borders Books, and Arden Fair mall to enlist sign-ups for SMUD's renewable energy program, Greenergy[®], in 2005.

Customers are informed of SMUD operations and programs through a monthly newsletter that accompanies their electric bill. The monthly newsletter and other inserts contain information about SMUD issues, events, and activities, and promotes a wide variety of programs and services. SMUD also offers extensive information about programs and services online at its website at www.smud.org. Customers can pay their bills on line as well as view their recent energy usage. SMUD also offers 25 pages of information in Spanish on its website.

SMUD's outreach efforts include programs for "hard to reach" customers, such as recent immigrants, and provide advertising and program materials in several languages other than English. Several bilingual SMUD employees have been trained to serve as spokespersons on local radio stations in Russian, Spanish, Vietnamese and Hmong languages. Employees inform listeners in various languages how to use energy safely and efficiently and explain how low income families can take advantage of SMUD's discount rates. These employees do about two-dozen interviews per year on local ethnic radio stations. SMUD maintains a strong community presence at events and festivals to inform customers about SMUD programs and issues. SMUD also participates in numerous trade shows and home and garden shows each year to promote energy efficiency and other programs and answer customer questions about SMUD issues.

SMUD conducts outreach through several ongoing community efforts. For example, each SMUD Director hosts two "roundtable" meetings per year in their respective wards, where neighborhood, civic and business leaders share their opinions on SMUD related items.

SMUD operates a Speakers Bureau program that makes speakers available to community groups to share information about programs and services. SMUD also has an Ambassador Program where employees volunteer their time to attend civic and business organizations meetings to share information about SMUD.

Finally, SMUD coordinates an Employee Volunteer Program (EVP) to promote volunteerism in the community, including a current Habitat for Humanity project in the Oak Park area of Sacramento.

g. Describe means of compliance with the Ralph M. Brown Act and the Political Reform Act. Describe grand jury or law enforcement agency investigations, if any.

As described in subsection e, above, SMUD complies with the public notice requirements set forth in the Brown Act. In addition, all Brown Act notices are reviewed and approved by the General Counsel's Office to ensure compliance. Excepting only the annual closed session to review the performance of the General Manager, General Counsel and Special Assistant to the Board, the General Counsel or his designee attends all Board, Committee and closed sessions of the Board of Directors. The General Counsel is also charged with advising the SMUD Board of Directors on compliance with the Brown Act. Newly elected members of the Board of Directors are trained on compliance with the Brown Act prior to being seated on the Board. In addition, Board members receive an annual memo outlining their obligations under the Brown Act.

SMUD's Board of Directors has adopted and updated (as necessary) a Conflict of Interest Code, which complies with the Political Reform Act (the Act) and applies to the Directors and designated employees. SMUD collects, retains and tracks annual financial interest disclosure documents required under the Act and applicable Fair Political Practices Commission (FPPC) regulations as they apply to designated employees. SMUD also collects and submits to the FPPC the annual financial interest disclosure documents required for designated statewide filers (e.g., the Board members, General Manager, and Chief Financial Officer). Newly elected members of the Board of Directors are trained on compliance with the Act prior to being seated on the Board. In addition, SMUD has appointed an Ethics Compliance Officer, who reports to the General Counsel, to advise employees on compliance issues and oversee investigations related to potential violations of the Act. In 2005, SMUD developed a mandatory on-line ethics-training program for employees. Finally, recently adopted legislation (Assembly Bill 1237) requires all locally elected officials to receive ethics training once every two years beginning in 2006.

In 1990, the Sacramento Grand Jury included a review of SMUD's operations and made eight recommendations for improvement in its Final Report. The eight recommendations focused on SMUD's procurement of supplies, materials and services at the time. Shortly after issuance of the Report, SMUD provided a written response. Copies of relevant excerpts of the Final Report of the Grand Jury and SMUD's response are included as Attachment AB. Since the Report, SMUD has revised its policies and procedures on procurement and contracting several times; most recently with the Board of Director's adoption of Board-Staff Linkage Policy BL-7, Delegation to the GM with Respect to Procurement. (See Attachment

T.) SMUD's current contracting policies and practices are consistent with or exceed the recommendations made in the 1990 Report.

- h. Describe agency's prior involvement in a reorganization (i.e.- consolidation, merger, etc.) if applicable. Explain opportunities and obstacles for future reorganizations. Provide copies of any relevant studies on reorganization that agency has conducted and summarize outcomes.**

SMUD has not previously been involved in a reorganization (i.e., two or more changes of organization initiated in a single proposal) and does not anticipate participating in any reorganization in the foreseeable future. Accordingly, SMUD has not undertaken any reorganization studies.

- i. Describe level of public participation, and ways that staff and directors are accessible to the public.**

SMUD customers are encouraged to participate in each of SMUD's two monthly Board Meetings and four monthly Committee Meetings detailed in Section IV.e. above. Citizens can provide input and guidance to SMUD Directors at any of these meetings. SMUD Directors can also be contacted through the SMUD Board office by letter, and by e-mail through the SMUD website. In addition to public comments regarding agenda items, a portion of the meeting is reserved for the public to speak on any issue not listed on the agenda. Additionally, a Board of Directors section is available on the website, where citizens can directly e-mail Board members or find out how to call their elected Director or write them to express opinions on SMUD related matters.

Beyond the regularly scheduled public meetings, SMUD has several programs that provide the opportunity for Directors and staff to further interact with SMUD's customer owners. For example, each of the seven SMUD Directors host two "roundtables" meetings every year where Board Members invite citizens and neighborhood, civic and business leaders to share their opinions on energy related policies and issues. Directors also regularly attend meetings in their wards hosted by community organizations, neighborhood groups, business associations and Chamber of Commerce organizations. They also attend numerous community, Chamber and business events hosted in the larger community.

SMUD has an Ambassador Program through which employees volunteer their time to act as Ambassadors to community, civic, neighborhood, chamber and business organizations. Employees regularly attend each organization's meetings to share information about SMUD and provide feedback to SMUD management on issues of concern raised at these

meetings. The Ambassador Program has over 127 active members who reach over 96 unique organizations.

Another popular program is the SMUD Speakers Bureau. The Speakers Bureau is a group of SMUD employees who volunteer their time to speak to local associations, clubs, and organizations about SMUD's programs and issues. The Speakers Bureau addresses a wide variety of topics including customer services, energy efficiency, electric vehicles, advanced renewable technologies, hydro re-licensing and annexation. There are over 55 active employees in SMUD's Speaker's Bureau.

SMUD also supports an Employee Volunteer Program (EVP). The purpose of the EVP is to promote employee volunteerism in the community and serve as a communications vehicle between corporations and the nonprofit sector. The EVP mobilizes and increases employee volunteerism to deliver creative solutions to community problems. Each year approximately 200 employees participate in a variety of community volunteer events.

In addition, SMUD has established a Habitat for Humanity Program where SMUD employees contribute funds and volunteer their time to build energy efficient homes for homeless families. SMUD's first employee funded Habitat for Humanity home is currently under construction in Oak Park. SMUD also supports local non-profit organizations through its combined charities campaign where employees are encouraged to make donations to their favorite charities through payroll deductions. SMUD's recently completed 2005 combined charities campaign resulted in pledges from employees of \$347,068 for 2006.

SMUD provides educational workshops for customers on a variety of subjects related to energy efficiency through its Energy and Technology Center (E&TC). These classes are available to residential and commercial customers, along with public agencies. The E&TC also provides interactive displays where customers can see first hand how to better use energy. Through the E&TC, SMUD maintains several high school partnerships that support school career development programs and educational materials for educators.

Finally, SMUD makes its conference rooms available after hours for non-profit organizations to use for meetings and hosts a public Art Gallery in its main lobby in partnership with the Sacramento Metropolitan Arts Commission.

j. Describe ability of public to access information and agency reports.

SMUD complies with federal and state laws and regulations regarding retention of records and has adopted a Records Management and Retention Policy (See Attachment AC). SMUD also complies with the Public Records Act (PRA) with regard to providing the public access to public documents. All Public Records Act requests are reviewed by the General Counsel's office to ensure compliance with the PRA requirements, including timelines for providing access to requested documents. In addition, SMUD maintains a website, which is easily accessed by members of public. The website contains information on SMUD programs and services and documents of interest, such as SMUD's Rates, Rules and Regulations. In addition, for issues of particular public interest, SMUD often provides access to information and reports through the website. For example, the SMUD website includes extensive documentation regarding the proposed Yolo Annexation.

k. Describe existing and new government options to provide for logical service boundaries in the local and regional context.

SMUD has an exclusive right to provide electricity service within its existing service territory. The Cities of West Sacramento, Davis and Woodland and Yolo County have requested that SMUD provide electric service within the Cities and the contiguous unincorporated area of Yolo County. SMUD's application to annex the Cities and nearby areas of Yolo County is currently before the Sacramento LAFCo.

SMUD is unaware of any new government options to provide for logical service boundaries that might impact its service options or operations.

l. Describe opportunities to eliminate service islands, peninsulas and other illogical service areas.

SMUD does not have service islands, peninsulas and other illogical service areas in its service territory. The proposed annexation area has been carefully defined so as not to result in service islands, peninsulas and other illogical service areas.

V. OPPORTUNITIES FOR SHARED FACILITIES COST/AVOIDANCE OPPORTUNITIES

- a. Describe existing and potential shared facilities, infrastructure, and staff. Describe any joint power agreements or other agreements for sharing resources with other agencies.**

Joint Use Agreements

SMUD has entered “Joint Use Agreements” for sharing the use of overhead and underground facilities with telephone, cable television, communication, lighting, and other utility services. These agreements outline the process and procedures for SMUD and other utilities to co-locate and share costs. In addition, SMUD has existing agreements for the lease of facilities and rights-of-way owned by other electric utilities. These agreements are intended to avoid duplication of facilities, avoid conflicts between utility facilities and to reduce the facility costs for utility customers

Joint Powers Authorities:

SMUD is also a member of the following Joint Powers Authorities (JPA):

- Sacramento Power Authority (SPA): SPA is a JPA formed by SMUD and the Sacramento Municipal Utility District Financing Authority (SFA). The purpose of this agency is to own and operate the Campbell Soup 160 MW cogeneration power plant.
- Sacramento Cogeneration Authority (SCA): SCA is a JPA formed by SMUD and SFA. The purpose of this agency is to own and operate the Procter and Gamble 164 MW cogeneration power plant.
- Sacramento Municipal Utility District Financing Authority (SFA): SFA is a JPA formed by SMUD and the Modesto Irrigation District (MID). As discussed above, this agency is a member of both the SPA and SCA (which own and operate the Campbell Soup and Procter and Gamble and cogeneration power plants, respectively). SFA will finance and assume ownership of the Cosumnes Power Plant (CPP) that is currently under construction by SMUD.
- Central Valley Financing Authority (CVFA): CVFA is a JPA formed by SMUD and the Sacramento Regional County Sanitation District (SRCSD). The purpose of this agency is to own and operate the Carson Cogeneration 100 MW cogeneration power plant.
- Transmission Agency of Northern California (TANC): TANC is a JPA formed by SMUD and fourteen other Northern California public utilities. TANC owns 78% of the California Oregon

Transmission Project and controls 78% of its capacity. The purpose of this agency is to provide electric transmission or other facilities for the use of the members.

- Central California Power Agency No. 1 (CCPA No. 1): CCPA No. 1 is a JPA formed by SMUD, MID, and the City of Santa Clara. The purpose of this agency is to own and operate the Coldwater Creek Geothermal Plant and associated steam fields. The CCPA No. 1 power plant has been decommissioned and the site restored in accordance the California Energy Commission (CEC) Requirements. Most assets have been liquidated and the CCPA will likely be dissolved in 2006.

b. Describe existing and potential joint use planning.

SMUD works closely with many federal, state, and local agencies, as well as other public and private utilities, to share rights-of-way and facilities when possible in order to avoid duplication of facilities, conflicts between utility facilities, and to reduce facility costs for utility customers.

Existing Joint Use Planning

SMUD plans regularly with water, wastewater, roads, telephone, cable television, communication, lighting, and other infrastructure planners for the joint use of rights-of-way and facilities. SMUD has “joint use agreements” with other service providers that define the procedures for SMUD and other agencies to co-locate and share costs.

SMUD is member of the WECC, a regional council of the NERC. The mission of the council and its members is to ensure that the bulk electric system in North America is reliable, adequate, and secure. The member utilities work together to agree on standards and practices and a compliance program that is intended to achieve these goals.

SMUD operates its own Control Area that includes regional WAPA facilities, municipal utilities directly connected to WAPA (e.g., the Cities of Redding and Roseville), the California Oregon Transmission Project and Modesto Irrigation District facilities. SMUD is responsible for balancing the resources and energy loads as well as managing the transmission electrical grid on a real time basis. Therefore, SMUD works closely with WAPA and the other entities to plan for and manage its Control Area. SMUD also works closely and cooperatively with adjacent control areas such as the California Independent System Operator and the Bonneville Power Agency to maintain operational integrity of the electrical grid.

SMUD also works cooperatively with the United States Forest Service (USFS) to develop and fund recreational facilities near SMUD's Upper American River Project (UARP), a series of 11 reservoirs and eight powerhouses in the Sierra Nevada.

SMUD partners with regional emergency response planners at the federal, state, and local agency level to prepare appropriate emergency preparedness plans and to conduct periodic readiness exercises.

SMUD partners with contractors and manufacturers to provide the ability for SMUD customers to participate in green energy and energy efficiency opportunities.

Potential Joint Use Planning

In addition to the existing joint use agreements that SMUD participates in, SMUD is always open to proposals from other agencies or companies for the joint use of facilities that are mutually beneficial, feasible and result in cost savings or efficiencies for SMUD's customers.

SMUD is in the process of planning for the upgrade of its existing 2-way radio system. SMUD also has a contract with the Sacramento County Sheriff's Department for their use of facilities at Rancho Seco to improve their radio coverage.

c. Describe existing and/or potential duplication with existing or planned facilities or services with other agencies.

There is no existing or potential duplication of electric service with existing or planned facilities or services with other agencies.

(See SMUD Application, Section IV.B.5.a, Technical Analysis and Plan for Service.)

d. Describe availability of any excess capacity to serve customers or other agencies. Describe any economies of scale in shared purchasing power, and any other cost sharing opportunities that can be implemented by joint use or sharing resources.

SMUD's capital facilities are designed to serve load, service customers and meet expected growth and contingencies within SMUD's service area. Some overcapacity exists in the 115 kV transmission system due to lesser than expected load growth and/or areas previously planned to be served by the 115 KV transmission being served by the 69 kV sub-transmission

system. Similarly, SMUD's fiber optic system was installed to meet needs and extra capacity was installed at a marginal cost.

As discussed above, SMUD actively works with agencies to leverage existing or planned infrastructure for joint use to create efficiencies and economies of scale. Examples of such joint use or sharing of facilities include joint use of communication towers, power poles for telephone, cable TV and fiber optic paths, fiber, poles and towers for cell phone antennas, and joint use of SMUD's Rancho Seco facility for Federal Law Enforcement training exercises.

SMUD has shared purchasing power for vehicles and leveraged a procurement card program with the State of California. SMUD works with agencies to share training opportunities, including shared use of the California Highway Patrol facilities in Rancho Cordova. SMUD has mutual assistance agreements with other energy providers for sharing of materials and labor. In addition, SMUD has signed Operational Area Agreements with Sacramento and El Dorado Counties for emergency planning, response and recovery activities.

e. Describe any duplication (overlap), or gaps in services or boundaries.

There is no duplication or overlap, and there are no gaps in services or boundaries. In the case of the few SMUD customers located outside SMUD's boundaries (described in Section I.m), duplication of facilities is avoided by service contracts between SMUD and PG&E.

f. Describe ongoing cost avoidance practices. (Contract vs. in house, is bidding process cost effective and efficient)

SMUD employs a number of practices to manage and avoid costs.

Currently, SMUD's largest annual expenditures are associated with the purchase of electricity from the wholesale energy market and natural gas to generate electricity. Purchases of both commodities are conducted in compliance with the Energy Risk Management Policy, adopted by the Board of Directors and the Trading Guidelines approved by management, which implement the Policy. The Policy sets forth delegations to the General Manager and establishes controls to ensure compliance. In addition, SMUD's Internal Auditor periodically audits wholesale energy and natural gas transactions for compliance with the Policy.

SMUD regularly contracts for the provision of a variety of equipment, materials, and services. These include professional services, consulting services, certain types of construction, tree trimming, mailing customer

bills, maintenance work, and a wide variety of equipment and materials. In contracting for services, SMUD evaluates whether the services can be more efficiently and cost-effectively performed in-house or outside. SMUD contracts for services to perform (i) short-term work that requires resources beyond SMUD's current staffing levels, (ii) work that is not part of SMUD's core business processes, and (iii) expertise that is not currently available within SMUD.

The authority to procure equipment, materials and services is delegated from SMUD's Board of Directors to the General Manager in Board-Staff Linkage Policy 7. The General Manager then re-delegates some portion of this authority to specific positions. These authorizations are documented within SMUD's Board-Staff Linkage Policies (Attachment T). The solicitation of bids and award of non-energy contracts for equipment, materials, and services is centralized in SMUD's Supply Chain Services Department. SMUD has standardized documents and processes for soliciting competitive bids and proposals from contractors and suppliers and awarding to the "best evaluated" bidder or proposer. In addition, on a quarterly basis, staff reports to the Board in public session on its procurement activities.

SMUD has an aggressive outreach program designed to insure that qualified bidders are aware of and can participate in SMUD's solicitation process. SMUD utilizes an on-line bid solicitation process that allows prospective bidders to register on-line and download documents for submitting a bid. By registering on-line, a prospective bidder can receive advance notice of prospective bids. This process reduces the amount of time to distribute solicitations to prospective bidders and reduces the cost of soliciting bids by eliminating the expenses required to create and mail hard copy bid documents. SMUD's on-line bid process also allows prospective subcontractors to post information that can be used by prime contractors when looking for subcontractor opportunities.

SMUD is also committed to expanding the pool of equipment, material, and service providers within its service territory. SMUD has two (2) programs that are intended to help emerging companies and local SMUD rate paying companies to compete with other service providers and suppliers. These programs are:

- Supplier Emerging Enterprise Development (SEED) and Rate paying Emerging Business Enterprises (REBE) programs. These programs provide for a five (5) percent price evaluation advantage for qualifying SEED and REBE bidders.
- Small business loan and insurance programs. These programs help qualified companies obtain access to insurance programs as well as capital through various loan guarantee programs.

SMUD also has a supplier diversity outreach program that works closely with organizations such as the Sacramento Asian Pacific Chamber of Commerce, the Sacramento Black Chamber of Commerce, the Sacramento Hispanic Chamber of Commerce and other local chambers of commerce to inform potential contractors in the Sacramento region of contracting opportunities at SMUD.

SMUD's contracting for equipment, materials and services is centralized in the Supply Chain Services Department. Where possible, SMUD uses form contracts to ensure that adequate protections and controls are in place for all contracts. In addition, any deviation from normal contracting provisions requires the review and approval of the General Counsel's Office. All SMUD contracts have contract dollar limits and expiration dates set forth in the contract. In addition, controls are in place to ensure that contract limits are not exceeded without first obtaining the necessary management or Board approval. As noted above, SMUD's Supply Chain Services provides regular reports to the General Manager and the Board of Directors on procurement activities. SMUD's Audit Services performs audits periodically to determine if policies and procedures are being followed during the procurement processes.

g. Describe opportunities to reduce overhead and operational costs.

One of SMUD's strategic objectives is to increase customer equity by controlling non-commodity operation and maintenance (O&M) costs, while maintaining or improving customer service. To fulfill this objective, SMUD works continuously to reduce the cost of providing electric services. Two ongoing SMUD initiatives are Reengineering of Business Processes and Strategic Sourcing. Both initiatives have resulted in significant changes in SMUD business processes, as described below. These changes have reduced the cost of service and cycle times, and improved customer service.

Reengineering of Business Processes

SMUD has "reengineered" most SMUD business processes over the last eight (8) years (see Section II.c). Reengineering consists of the analysis of SMUD business processes in order improve value and reduce handoffs, cycle time, and costs. This is done through the analysis and management of "People", "Process", and "Technology" necessary to enable business processes that are best practices.

SMUD recognizes the importance of the "People" performing the business process. SMUD has programs in place to recruit, select, train, and retain a diverse, competent, and safe work force. SMUD actively selects,

develops, and retains employees who demonstrate innovation, collaboration, and leadership. These workforce characteristics allow SMUD to develop low cost solutions for its customers.

SMUD is committed to a “Process” driven organization and continuous business process improvement. SMUD actively reviews its business processes and associated performance metrics for improvement opportunities. SMUD uses diverse employee teams along with outside assistance to examine business processes and make improvement recommendations to Executive Management. These recommendations have resulted in improvements in SMUD processes that have lowered costs and improved service to customers. In addition, these practices have fostered an atmosphere focused on continuous improvement.

SMUD has invested significantly in “Technology” to enable employees to perform processes efficiently and at lower cost. In addition, technology improvements have been extended to SMUD customers to allow them to obtain information and perform transactions. These investments include installation and maintenance of:

- An Enterprise Resource Planning (ERP) system that has provided an enterprise-wide technology solution for most SMUD business processes,
- Service Delivery Information Technology (SDIT). This suite of technology includes a Geographical Information System (GIS), Outage Management System (OMS), and design and analysis tools, and
- Internet applications that allow customers to obtain account information and to submit transactions.

These technology improvements have eliminated disparate systems, improved business data visibility, improved integration of SMUD-wide business processes, and provided customer access. This has resulted in improved business process cycle times, lower operation and maintenance costs, and improvements in customer service.

Strategic Sourcing

The objective of Strategic Sourcing is to:

- Establish new relationships with suppliers to achieve significant improvements in cost, quality and cycle time,
- Consolidate SMUD’s total purchasing power for maximum value,
- Ensure strategic sourcing aligns with SMUD’s business processes and structures, and
- Reduce SMUD’s purchasing transactions and material inventory levels.

SMUD's Strategic Sourcing program has resulted in innovative and seamless relationships with SMUD's suppliers. These relationships have significantly decreased the number of procurement transactions, provided major improvements in material and service delivery times, and improved material quality. This has resulted in a reduction in inventory carrying costs, overhead, and maintenance costs. In addition, SMUD is more responsive to planned and unplanned material and service requirements of its customers.

h. Describe opportunities to reduce duplication of infrastructure.

Because SMUD is the sole provider of electric service within its service territory, there generally is little or no duplication of infrastructure. SMUD takes every opportunity to work with other agencies and utilities to avoid duplicate infrastructures. Examples of this include joint use agreements for Joint Poles, Joint Trenches, Fiber Optic agreements, communication towers, transmission lines, etc.

i. Identify areas outside agency boundary that could be efficiently served by existing or proposed agency facilities.

SMUD provides only electric service (this includes the sale and distribution of electricity, and related customer programs). SMUD has an exclusive service area; PG&E, an investor-owned utility, provides such service throughout most of the rest of northern California. PG&E's customers have the ability to pursue obtaining electric service from publicly owned utilities, like SMUD.

In April 2003, the SMUD Board adopted an annexation policy that sets the criteria that must be met for SMUD to consider annexing any area beyond its current boundary. SMUD will only consider annexing territory into its electric service area if all the following criteria are met:

- The area proposed for annexation must be a relatively dense, urban area.
- The potential annexation territory must be a growing area.
- The area must lie within approximately 30 miles driving distance from SMUD customer service facilities.
- The local jurisdiction(s) seeking annexation must take the initiative by formally requesting that SMUD's Board consider annexation.
- The local jurisdiction(s) agrees to share in the costs of a study to assess the feasibility of annexation.

The Cities of West Sacramento, Davis and Woodland (the Cities), and the County of Yolo, have requested that SMUD annex the Cities and adjacent portions of unincorporated Yolo County, into SMUD's electric service area. That request satisfied the criteria set forth above and SMUD filed an application to annex the Cities and nearby portions of Yolo County, and amend its Sphere of Influence accordingly, with LAFCo on August 1, 2005. Prior to filing the annexation application, SMUD and the local jurisdictions conducted detailed feasibility studies and concluded SMUD service in the area proposed for annexation was technically and economically feasible.

SMUD is not currently evaluating any other formal local agency annexation requests that satisfy the criteria listed above. In the event SMUD does consider such requests in the future, SMUD expects strong PG&E opposition to SMUD annexation will be the most significant obstacle.

j. Identify areas within agency boundary, which could be more efficiently served by another agency.

There are no areas within SMUD's boundary that could be more efficiently served with electricity by another agency. SMUD has the obligation to provide electric service to all customers within its service area and, over the past 60 years, has demonstrated its ability to do so.

There are three existing SMUD customers as noted below that are currently served by PG&E facilities. These three customers are served through existing service exchange agreements with PG&E.

<u>SMUD Meter Number</u>	<u>Location</u>	<u>SMUD CCS DEV LOC NBR</u>
317644	31353 Mackville Rd	1249258
309853	31353 Mackville Rd	1249259
488659	270 Green Valley Rd	1242867

k. Are your service plans compatible with other local agencies? Explain.

Yes. SMUD routinely works with local agencies, including Sacramento County and the cities of Sacramento, Folsom, Elk Grove, Galt, Rancho Cordova and Citrus Heights, to coordinate activities and planning. SMUD receives planning data from various jurisdictions (cities, county, etc) and incorporates that data into its service plans to ensure electric service can be provided throughout the service territory in an efficient and organized manner.

(See SMUD Application, Section IV, Plan for Service.)

VI. ADDITIONAL INFORMATION

Please provide any additional information that you would like LAFCo to evaluate as part of your agency's Municipal Service Review.

- a. Indicate any information relevant to your agency which LAFCo should obtain from other agencies.**

There is no information relevant to SMUD that LAFCo should obtain from other agencies.

- b. Please forward any publications your agency has produced that will assist LAFCo staff in a review of your agency's service provision.**

SMUD has included as attachments materials that will assist LAFCo in its review of SMUD service.