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

DATE: September 2, 2009

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: ***SACRAMENTO MUNICIPAL UTILITY DISTRICT (SMUD) REQUEST FOR CHANGE OF ORGANIZATION - ACTIVATION OF A LATENT POWER (THERMAL ENERGY) (07-09)***
[CEQA: Exempt]

CONTACT: Don Lockhart, AICP, Assistant Executive Officer (916) 874-2937
(Don.Lockhart@SacLAFCo.org)

RECOMMENDATIONS

1. Approve the CEQA Categorical Exemption as adequate and complete for the project, pursuant to CEQA Guidelines Section 15320.

2. Adopt the Resolution Making Findings for the SMUD Plan for Service and Approval of the Request for a Change of Organization - Activation of a Latent Power (Thermal Energy) (07-09).

3. Designate the Executive Officer as Conducting Authority; and direct that the protest hearing be set after the close of the required 30-day reconsideration period.

PROJECT PROPONENTS

Sacramento Municipal Utility District
c/o John DiStasio, General Manager & CEO
6201 S Street
Sacramento, CA 95852
(916) 732-6201

PROJECT DESCRIPTION

The proposal consists of two parts:

1. SMUD Plan for Service (Attachment A)

2. Request for a Change of Organization – Activation of a Latent Power (Thermal Energy). [In this instance, a change of organization means a proposal for the exercise of new or different functions or classes of services… within all or part of the jurisdictional boundaries of a special district.]

   SMUD, an independent special district, seeks LAFCo approval to activate a latent power for Thermal Energy (TE) service within its existing service area. TE service (*i.e.*, heat) is one of SMUD's authorized services under the Municipal Utility District Act (MUD Act), but is a "latent" power requiring activation by LAFCo. No change in SMUD's existing service boundaries is necessary or requested in connection with this proposal by SMUD.

SUMMARY OF EXECUTIVE OFFICER'S REPORT

As Executive Officer of the Sacramento Local Agency Formation Commission, I have reviewed the request for a Change of Organization - Activation of a Latent Power (Thermal Energy) and the supporting materials, including the Plan for Service, and all affected agency and interested party comments.

In summary, it is my informed opinion that SMUD has provided sufficient information for the Commission to conclude that the requirements of the Cortese-Knox-Hertzberg Act have been met.

Your Commission is charged with considering whether SMUD has sufficient revenues and ability to provide the new or different function or class of services to customers within SMUD's jurisdictional boundaries.

My recommendation is based upon my determinations that

(1) SMUD is an experienced, qualified provider of cost effective, clean, and reliable energy;

(2) SMUD's plan for service demonstrates SMUD's ability to provide Thermal Energy service using District Energy Systems; and

(3) SMUD will have sufficient revenues to carry out the proposed service at appropriate locations within its existing service boundaries.

Based on the information provided, I conclude that sustainable improvement is realistic and there is a high probability that the proposal will be beneficial as set forth in this report.

Activation of a latent power is subject to Conducting Authority Protest Proceedings, which is discussed further in this report.

COMMISSION AUTHORITY

The Sacramento Local Agency Formation Commission (LAFCo), as LAFCo in the principal county,[1] must determine whether or not SMUD has the ability, means, capacity, and expertise to provide TE service at appropriate locations within its existing service area.

Your Commission shall review and approve or disapprove with or without amendments, wholly, partially, or conditionally the proposal by SMUD, an independent special district, to be able to provide a new or different function or class of services (i.e., thermal energy) within SMUD's existing service boundaries. No other regulatory approvals or findings are required in connection with SMUD's proposal to activate its latent power for TE service.

SCOPE OF REVIEW

Staff has considered and analyzed the following issues and factors related to SMUD's proposed change of organization.

1. SMUD Application, including SMUD Board Resolution of Application (Resolution No. 09-05-04), and related materials
2. Relevant factors from Government Code section 56668
3. SMUD Plan for Service, as required by Government Code sections 56824.12 and 56653, and related materials
4. Net Benefits to Affected Ratepayers
5. The existence of sufficient revenues to carry out the provision of the TE service, as required by Government Code section 56824.14
6. LAFCo's Policies
7. CEQA Guidelines [Categorical Exemption, CEQA Guidelines § 15320]
8. International District Energy Assoc. Report on DES (Aug. 2005) [Attachment C]
9. Application supporting materials:
    - Office of the Governor of the State of California Executive Order Executive Order S-3-05
    - California Energy Commission Integrated Energy Policy Report 2007
    - The California Air Resources Board for The State of California Climate Change Scoping Plan December 2008
    - State of California Energy Action Plan II Implementation Roadmap For Energy Policies September 21, 2005
    - State of California Energy Action Plan
    - Sacramento Region Blueprint Transportation Land Use Study Preferred Blueprint Alternative

[1] Sacramento County is the principal county due to the rule that the majority of assessed valuation of SMUD is within Sacramento County. [Gov. Code, § 56066.]

- Legislative Counsel's Digest Senate Bill No. 375, Chapter 728
- City of Sacramento Creating a Sustainable City
- City of Sacramento General Plan 2030
- Sierra Club 2006 Energy Resources Policy
- California Environmental Protection Agency Climate Action Team Report to Governor and Legislature (May, 2006)

APPLICABLE STATUTES

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires that special districts proposing a change of organization provide LAFCo with a plan for providing service in support of the request. ["Change of organization" means ... (h) A proposal for the exercise of new or different functions or classes of services, or divestiture of the power to provide particular functions or classes of services, within all or part of the jurisdictional boundaries of a special district. (Gov. Code, § 56021 (amended by Stats. 2008).)]

Proposals to activate latent powers must meet the requirements of Government Code sections 56824.10 through 56824.14. LAFCo also considers the relevant factors listed in Government Code section 56668. Primarily, your Commission should consider the need for the Thermal Energy service; and whether SMUD has the ability and sufficient revenues to carry out the proposed service. "Service" refers to governmental services whether or not the services are services which would be provided by local agencies subject to LAFCo purview, and includes the public facilities necessary to provide those services.

Government Code Section 56824.12(a) requires submission of a Plan for Service prepared pursuant to Government Code Section 56653. Government Code Section 56653 provides:

> (a) Whenever a local agency or school district submits a resolution of application for a change of organization or reorganization pursuant to this part, the local agency shall submit with the resolution of application a plan for providing services within the affected territory.
>
> (b) The plan for providing services shall include all of the following information and any additional information required by the commission or the executive officer:
>
> > (1) An enumeration and description of the services to be extended to the affected territory.
> >
> > (2) The level and range of those services.
> >
> > (3) An indication of when those services can feasibly be extended to the affected territory.
> >
> > (4) An indication of any improvement or upgrading of structures, roads, sewer or water facilities, or other conditions the local agency would impose or require

within the affected territory if the change of organization or reorganization is completed.

(5) Information with respect to how those services will be financed.

Government Code section 56824.12 (a) requires that a plan for service submitted in connection with an application to add a new or different service must *also* include:

(1) the total estimated cost to provide the new service within the district's jurisdictional boundaries,

(2) the estimated cost of the new service to customers within the district's jurisdictional boundaries,

(3) an identification of existing providers, if any, of the new service proposed to be provided, and the fiscal impact to the customers of any such providers,

(4) a summary whether the new service will involve activation of a latent power,

(5) a plan for financing the establishment of the new service within the district's jurisdictional boundaries, and

(6) alternatives to the establishment of the new service within the district's jurisdictional boundaries.

Subject to limited exceptions, LAFCo may not approve a proposal to activate a latent power unless it determines that the applicant district has sufficient revenues to carry out the new service. (Gov. Code §, 56824.14(a).) LAFCo may approve a proposal to activate a latent power if it determines the district will not have sufficient revenues if LAFCo conditions its approval on the concurrent approval of sufficient revenue sources pursuant to Cortest-Knox-Hertzberg Act section 56886 (incurring new indebtedness, issuing bonds, etc.).

Based upon the analysis below, LAFCo staff has determined that the applicable requirements of the Government Code have been met.

APPLICABLE COMMISSION POLICY

The fundamental question to be evaluated by your Commission will be whether SMUD's proposal to activate a latent power for TE service should be approved, including whether SMUD has sufficient revenues to carry out the new service. LAFCo procedure provides that the following policies be applied to all proposals:[2]

- The Commission is charged with encouraging orderly growth and development.
- The Commission must exercise its authority to ensure that affected populations receive efficient services.
- The Commission can impose terms and conditions to mitigate environmental impacts, fiscal impacts, or other impacts.

[2] Sacramento Local Agency Formation Commission Policies, Standards and Procedures for LAFCo, adopted September 5, 1990, Amended May 4, 1993.

- The Commission will favorably consider those applications that do not shift the cost for services and infrastructure benefits/costs to other service areas.
- Commission policy encourages the use of service providers that are governed by officials elected by the citizens.

The SMUD proposal is consistent with the above General Policies.

OVERVIEW OF SMUD HISTORY AND OPERATIONS

The following provides a very brief summary of SMUD's operational highlights. Formation of the Sacramento Municipal Utility District was approved by the Sacramento County electorate on July 23, 1923. However, between 1923 and 1946, SMUD was engaged in litigation with PG&E, the previous electric service provider. SMUD did not provide electric service until 1946. Today, SMUD provides electric service and street lighting to a significant portion of Sacramento County and very small portions of Placer County and Yolo County.

SMUD was formed under the Municipal Utility District (MUD) Act. SMUD has seven Directors, elected by wards, or districts. The Board is responsible for setting District policies, programs and rates within the District. SMUD is not regulated by the California Public Utilities Commission.

Since 1915, the MUD Act has authorized districts such as SMUD to supply various services, including electricity and heat, to the residents, businesses, and public agencies within district boundaries. (Public Utilities Code sections 11500 *et. seq.*) SMUD currently provides electric service, but none of the other services it is authorized to provide, throughout its service boundaries.

SMUD currently generates, transmits, and distributes electric power throughout a 900 square mile service area that includes Sacramento County (except for the extreme southwest portion of the County) and a small portion of Placer County. Additionally, in 2004 SMUD annexed a small area in Yolo County in response to a request from its long-time customer, the Sacramento Regional County Sanitation District (SRCSD), for service to SRCSD's South River Pump Station, which is a component of the SRCSD's integrated wastewater conveyance and treatment system. A map of SMUD's existing service area is included as Attachment B hereto.

SMUD is the nation's sixth largest community-owned electric utility, serving a population of approximately 1.4 million people. As of December 31, 2008, SMUD has more than 590,000 customers and approximately 2,100 employees.

The provision of reliable service is a SMUD core value. SMUD uses (i) its generation resources and power purchase agreement portfolio 100% of the time; and (ii) its transmission assets to assure an overall resource availability of at least 99.99%. SMUD maintains its electric system in good repair and makes necessary upgrades to maintain load serving capability and regulatory standards.

SMUD Vision and Mission

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

Relevant SMUD Goals and Strategic Directives

- Maintain competitive rates.
- Maintain access to credit markets.
- Provide reliable service.
- Maintain high level of customer relations.
- Provide a safe working environment for both employees and customers.
- Promote environmental protection through resource conservation, pollution prevention, waste minimization and recycling programs.
- Maintain employee relations in order to provide a diverse and respectful employment environment.
- Provide resource planning that improves local air quality and conserves fossil fuels by developing conservation programs, and renewable energy programs, and distributing clean energy.
- Investment in research and development that support core values based on an analysis of the risks of the project versus potential benefits to SMUD customers.

SMUD's Thermal Energy Operations Experience

SMUD has a proven track record in the production of TE systems and the operation of central utility plants (District Energy Systems) and CHP systems. Since 1994, SMUD has operated a DES with a central plant at its headquarters campus in Sacramento. The central plant provides hot water for space heating and chilled water for space cooling to approximately 350,000 square feet of office space in four buildings. The cooling plant consists of two rotary screw chillers, one at 200 tons and one at 600 tons, and is equipped with an ASHRAE 15 compliant refrigerant monitoring system, including the appropriate detection, alarming, and exhaust. The heating plant consists of four natural gas hot water boilers, two at 1million BTU/hr and two at 5million BTU/hr.

There is also a 13,000 ton-hour chilled water TE storage (TES) tank. In general, chilled water is supplied to SMUD's headquarters campus during the day from the TES tank. The chillers operate only at night to recharge the TES tank and serve small nighttime loads. The chiller plant has an overall efficiency of less than 0.7 kW/ton, which helped SMUD achieve a LEED Platinum certification for SMUD's Customer Services Center. This DES consistently operates at a high level of efficiency, safety, and reliability. Operation and maintenance is performed almost entirely by SMUD personnel.

Beginning in 1995, SMUD began operating three utility grade cogeneration plants in the SMUD service territory through various joint powers authorities. The plants were authorized pursuant to the California Energy Commission's power plant siting process. The three plants have a total peak power capacity of 423 MW. They produce electricity and steam, and have a history of reliable operation. The electricity is fed into the SMUD system-wide power grid to serve retail electric customers within SMUD's service boundaries. Steam from the plants is piped to a manufacturing thermal host adjacent to each of the plants—Carson Ice Company, Procter and Gamble, and Campbell Soup Company.

ANALYSIS

SMUD POLICY, GOALS, AND OBJECTIVES

On May 7, 2009, by Resolution No. 09-05-04, the SMUD Board of Directors initiated this proposal for a change of organization to activate a latent power, including proposed terms and conditions. Commission Staff has reviewed the proposed terms and conditions and concurs with them.

Activating SMUD's latent power for TE service would enable SMUD to provide retail TE service to customers at appropriate locations using District Energy Systems, which in some cases may include Combined Heat and Power (CHP) facilities and/or TE storage. Customers within a DES would use TE for some or all of the following purposes:

- chilled water for cooling building spaces
- hot water for heating building spaces
- steam for heating building spaces
- hot water or steam to produce domestic potable hot water, within the buildings
- other thermal services, such as process steam

SMUD would develop DES facilities at appropriate sites throughout its service boundaries. Typically, district energy would be implemented in newly-planned developments, although there may be instances in which existing development, infill development, or a combination of the two may be appropriate for district energy. *Implementation of district energy would be an option, not a requirement*, for the developer of the particular site, however, after development district energy would be the means by which those residing or occupying space in the development receive space heating, domestic hot water, and air conditioning (or other thermal services, such as process steam). In recent years, SMUD has evaluated whether the provision of TE services through DES would be a viable option at potential development sites, but has not entered into any agreements to develop such systems or approved such systems. Nonetheless, SMUD seeks through this change of organization request to activate its latent power for TE so that it has the ability to make retail TE service available to its customers at appropriate locations.

PROJECT LOCATION

SMUD currently generates, transmits, and distributes retail electric power throughout a 900 square mile service area that includes Sacramento County (except for the extreme southwest portion of the County – primarily the Delta south of Walnut Grove) and a small portion of Placer County. Additionally, in 2004 SMUD annexed a small area in Yolo County in response to a request from the Sacramento Regional County Sanitation District (SRCSD), for service to SRCSD's South River Pump Station, which is a component of the SRCSD's integrated wastewater conveyance and treatment system. A map of SMUD's existing service area is included as Attachment B.

SERVICE AREA CHARACTERISTICS

Area	900 sq. miles
Population	1.4 Million
Customers	590,000
Registered Voters	679,741
Land Uses	Residential, Commercial, Industrial, Agriculture
Employees	2,100

BOUNDARIES

There are no changes proposed to SMUD's current service area boundaries, its sphere of influence, or the boundaries or sphere of influence of any other agency.

NEED FOR THE SERVICE

SMUD would provide TE using District Energy Systems (DES). Generally, a DES produces steam, hot water and/or chilled water at a central plant and then delivers that TE to buildings in the DES through underground pipes for space heating, domestic hot water heating, and/or air conditioning. There are no other providers of retail TE services within SMUD's service boundaries, thus, there is no potential for customers of other providers to be adversely affected by activating SMUD's power to provide TE service within its service boundaries. [Note: California State University Sacramento has operated its own DES since 1993, and is supportive of this request.]

As discussed below, TE service has the potential for many benefits, including the following:

- Reduces greenhouse gas emissions by consolidating energy production, furthering the goals of the Global Warming Solutions Act (AB 32)
- Increases energy efficiency, consistent with the top priority in the State's Preferred Loading Order as described in the Energy Action Plan
- Furthers community sustainability strategies, as called for by the Sacramento Region Blueprint and SB 375

- Increases energy reliability by maintaining local sources of energy
- Contributes to Leadership in Energy and Environmental Design certifications
- Improves cost effectiveness of energy supply
- Makes more rooftop space available, creating opportunities to install solar photovoltaic power generation systems
- Avoids storage of fuels and refrigerants at individual building sites
- Reduces noise and vibration compared to cooling and heating systems at individual building sites
- Eliminates visual impact of packaged air conditioning units and other equipment
- Reduces operating and maintenance costs for building owners and tenants

SMUD's proposal to provide TE services at appropriate locations using DES will further state, regional, local, and SMUD goals and policies relating to climate change and the provision of environmentally beneficial, cost effective, efficient, and reliable energy service. District energy, both with and without CHP, furthers these goals and policies by utilizing centralized and efficient technologies to replace relatively less efficient and decentralized heating and cooling facilities. CHP, which uses one fuel input to produce two outputs and captures and uses heat that is otherwise wasted in the energy generation process, further promotes important state, regional, local, and SMUD goals and policies.

Another key benefit of a DES is the economy of scale that may be realized. Individual buildings do not require their own boilers or furnaces, chillers or air conditioners. A DES replaces that need. A DES serves many customers from one location, thus it can achieve service efficiencies that individual buildings usually cannot. For instance, the consolidation of boilers and chillers enables reduced production costs for, and increased reliability of, energy services compared to buildings with their own boilers, chillers and related equipment. Consolidation also reduces emissions of air pollutants.

DES have for the most part used natural gas to generate TE. SMUD indicates that it anticipates this will also be the case within its service territory. As technologies to generate thermal energy evolve, it is possible that SMUD could pursue alternative fuel sources, including renewable fuels, to fuel District Energy Systems.

Buildings connected to district energy systems also have lower capital costs for their energy equipment because they do not need conventional boilers and chillers. The DES user can save upfront capital outlay which can then be invested elsewhere. Also, building space savings can be used for other more valuable purposes. According to the International District Energy Association, the majority of DES operate at a reliability of "five nines" (99.999 percent). DES technology has been in use for over 100 years. As an example, the landmark Empire State Building has employed a DES since opening in 1931.

A DES requires a water supply for central plant operations such as cooling towers, boilers, and chillers. In general, the water required for central plant operations over the life of a district energy system will be less than or comparable to the life cycle water required for traditional cooling towers, boilers, and chillers installed at individual buildings. District energy systems also require water for the initial charging of the hot and chilled water distribution systems. However, once charged, a district energy water distribution system will need little makeup water since it is a closed loop system. The amount of water required varies between different sized district energy systems and depending on whether TE storage is included. The following table compares (a) the amount of water that would likely be required to initially charge a larger district energy system serving a mixed retail, commercial, and residential development and during the life cycle of system cooling tower, boiler, and chiller operations, to (b) the amount of water that would likely be required during the life cycle of traditional energy systems located at individual buildings. Notably, the amount of water required to initially charge the district energy thermal distribution system is only about 0.1% of the total life cycle water use.

Comparative Water Usage (Acre-feet) for a Mixed-Use District Energy System		
	District Energy System	Traditional Energy Systems
Initial Thermal System Charging	15	-
Life Cycle Water Usage	13,887	13,902
Total	13,902	13,902

Implementation of district energy projects will not result in a loss of customer water connections by local water suppliers. SMUD will become a new water customer at district energy locations and anticipates adequate water supply to be available for district energy.

AFFECTED AGENCIES AND INTERESTED PARTIES COMMENTS

The proposal was circulated for the review and comment of affected agencies and interested parties, including the California Energy Commission, local governments, and Pacific Gas & Electric Co. (PG&E.) LAFCo received comments from the City of Folsom, the Sacramento County Water Agency (SCWA) and California State University, Sacramento. There are no objections to the proposal.

Folsom supports the proposal, provided that a condition be applied to prohibit SMUD from mandating the use of thermal power. SMUD does not request the authority to mandate the use of this latent power for thermal energy. However, as noted above, after SMUD and a developer agree that district energy is appropriate for a particular site, district energy would be the means by which those residing or occupying space in the development receive thermal energy services.

The SCWA notes the volume of water required for a DES, and requests that impacts on available water supplies be assessed in the event a DES is developed. SMUD has indicated that the potential impacts of specific District Energy Systems will be evaluated.

CSUS has operated its own DES since 1993, and is supportive of this request. CSUS notes the strategy is sound and may seek future partnership with SMUD for facility development.

SUFFICIENT REVENUE

The following fiscal information is from the Plan for Service and supports a finding by the Commission that SMUD has sufficient revenues to provide the TE service.

Information as to How Services will be Financed

SMUD anticipates using traditional debt financing for the capital expenditures associated with developing a DES. SMUD's underlying credit ratings provide SMUD with full access to the credit markets. At the time SMUD filed its application, its credit ratings were an "A" from Standard & Poor's and "A2" from Moody's. SMUD recently informed LAFCo that its current credit ratings are even higher: "A+" from Standard & Poor's and "A1" from Moody's. It is SMUD's policy to maintain credit ratings that ensure access to capital markets. SMUD considers this requirement in setting rates. Sources of capital include revenue bonds and bank secured variable rate debt. In addition to its borrowing capacity, SMUD also makes use of internally generated cash to finance capital projects with a goal of funding 20% of capital expenditures with cash generated from operations. Other capital sources may also include developer contributions commensurate with the developer's benefits. With respect to district energy, such benefits could include the reduced and/or avoided costs of heating and cooling systems normally installed in large buildings and the resulting increase in usable space available for lease.

Debt service and other ongoing costs, including fuel and operating and maintenance costs, will be recovered through district energy customer rates. Additionally, avoided generation, transmission, and distribution capacity costs may be considered as funding sources if they would otherwise be contributed by SMUD ratepayers using a conventional plan of service. If applicable, avoided environmental costs, such as costs to mitigate SMUD's carbon footprint, may be considered as sources of funds for district energy projects.

The costs and benefits derived by the provision of thermal services by SMUD to customers will primarily be borne by and directed to customers receiving those thermal services. To the extent that a district energy system benefits SMUD customers outside of a DES, the costs and benefits of such system will flow to all SMUD customers.

Total Estimated Cost to Provide the New Services Within SMUD's Service Boundaries

It is difficult to estimate the total costs to provide TE services within SMUD's service territory until specific projects are identified. Costs will be dictated by the type of DES (*e.g.*, chilled water, hot water, and steam), the size of the loads to be served, the geographical expanse of the DES, inclusion of CHP and/or TE storage, and other factors.

For illustrative purposes, SMUD has estimated the cost of a large-scale DES designed to serve a large area (over 200 acres), with retail, commercial, office, high-density residential, and hotel uses. Such uses could include over one million square feet of conditioned space and thousands of residential units. It is possible that nearby existing loads could be served by this system. In this scenario, a DES that includes CHP and TE storage could cost approximately $100 million dollars to build. The costs to construct and operate this illustrative project would be recovered through rates.

SMUD will evaluate the economic feasibility of each potential DES. SMUD will only move forward with systems that are beneficial for all SMUD customers, *i.e.*, the customers in the potential district and other SMUD customers as well. If a potential DES is not beneficial for all customers, SMUD will not pursue it. In determining whether a particular DES is beneficial for its customers, SMUD will consider various factors throughout the life of the potential system, including thermal load characteristics and expected growth, trends in energy costs and rates, and environmental and reliability benefits.

Estimated Cost of the New Service to SMUD's DES Customers

Each DES will be designed, constructed, operated, and maintained to meet the requirements of the customer uses in the development district where it provides heat and cooling. SMUD will provide TE services pursuant to a SMUD tariff and/or appropriate contract. SMUD will recover the costs of developing, constructing, owning, and operating DES from SMUD customers, as appropriate, through rates. This may involve a public ratesetting proceeding to establish rates for TE services. As noted in the preceding section, SMUD will only develop DES that it determines are beneficial for district energy customers and other SMUD customers.

Rates for heating, cooling, steam and any other TE services will be designed to achieve the following goals:

- To accurately transmit to the customer the cost of the TE delivered and used
- To encourage energy efficiency and conservation
- To present information to the customer in a readily understandable format
- To equitably allocate costs and benefits across all pertinent customer classes

In general, SMUD will construct, own, and maintain all conduits and piping necessary to provide service to a district. In some cases developers may be required to pay costs where conduit and piping requirements exceed a certain distance.

Based upon this information, LAFCo staff has concluded that there is substantial evidence to support a finding that SMUD has sufficient revenue to provide the TE service.

PLAN FOR SERVICE

Attached is SMUD's Plan for Service which would be implemented if LAFCo approves this request and SMUD subsequently identifies appropriate locations for district energy systems. The Plan for Service adequately fulfills the applicable requirements of the Government Code.

CEQA DISCUSSION

Pursuant to CEQA Guidelines section 15320, the proposed change of organization is exempt from CEQA. This Categorical Exemption applies to changes in the organization or reorganization of local governmental agencies where the changes do not change the geographical area in which previously existing powers are exercised. SMUD's proposed change of organization does not change the geographical area in which previously existing powers were

exercised. Additionally, there are no "previously existing powers" – no other entity provides retail thermal energy service in the area where SMUD seeks to be able to provide such service.

CONDUCTING AUTHORITY (PROTEST) PROCEEDINGS

This proposal is subject to conducting authority proceedings under Government Code sections 56824.14, subdivision (c), and 57075. The affected territory is inhabited, (i.e., more than twelve registered voters live in the service area). Notice has been published in the Sacramento Bee, the Woodland Democrat, and the Roseville Press-Tribune.

No written protests of the change of organization have been received. If your Commission adopts the resolution approving the SMUD proposal, any person or affected agency may file a written request with the executive officer requesting amendments to or reconsideration of the resolution within 30 days of adoption. [Gov. Code, § 56895 (a)(b).]

Your Commission, as Conducting Authority, shall take one of the following actions:

(1) Terminate proceedings if a majority protest exists.

(2) Order the change of organization or reorganization subject to confirmation by the registered voters residing within the affected territory if written protests have been filed and not withdrawn by either of the following:

(A) At least 25 percent, but less than 50 percent, of the registered voters residing in the affected territory.

(B) At least 25 percent of the number of owners of land who also own at least 25 percent of the assessed value of land within the affected territory.

(3) Order the change of organization or reorganization without an election if written protests have been filed and not withdrawn by less than 25 percent of the registered voters or less than 25 percent of the number of owners of land owning less than 25 percent of the assessed value of land within the affected territory. [Gov. Code, § 57075.]

Staff further recommends that your Commission designate the Executive Officer as the Conducting Authority; and direct that the Protest Hearing be set after the close of the reconsideration period. At the hearing, the Executive Officer shall determine the value of any oral or written protests, filed and not withdrawn.

LAFCO PROPOSED TERMS AND CONDITIONS

SMUD has proposed the following terms and conditions, which your staff supports.

1. SMUD shall ensure sufficient revenues exist to carry out TE services.
2. SMUD shall ensure that the costs and benefits of TE services are equitably allocated to SMUD's customers.
3. SMUD shall include TE service in its next scheduled Municipal Service Review.

4. SMUD shall ensure that any CEQA review that may be required in connection with future TE service at SMUD district energy projects occurs.

CONCLUSION

Your staff has conducted a thorough impartial analysis of this request, including extensive agency and public outreach. SMUD's proposal to provide TE services at appropriate locations within its existing boundaries using DES will further state, regional, local, and SMUD goals and policies relating to climate change and the availability of environmentally beneficial, cost effective, efficient, and reliable energy service. In short, the availability of TE services by SMUD would help fill a vital need that has been identified by policymakers and regulators.

I respectfully recommend the Commission

1. Approve the CEQA Categorical Exemption as adequate and complete for the project, pursuant to CEQA Guidelines section 15320.
2. Adopt the Resolution Making Findings for the SMUD Plan for Service and Approval of the Request for a Change of Organization - Activation of a Latent Power (Thermal Energy.)
3. Designate the Executive Officer as Conducting Authority; and direct that the protest hearing be set after the close of the required 30-day reconsideration period.

Respectfully submitted,

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Peter Brundage
Executive Officer

Attachments:

Attachment A - SMUD Plan for Service
Attachment B - SMUD Map of Existing Service Area
Attachment C - International District Energy Assoc. Report on District Energy Systems (Aug. 2005)
Attachment D - California State University Sacramento District Energy System Plant Photo
Attachment E - CEQA Categorical Exemption

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