General Manager's Report and Recommendation on

Rates and Services

May 2, 2013
Volume 1

SMUD™

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Rates and Services

Volume 1

Residential, Agricultural and Commercial Rate Changes
Miscellaneous Rate Changes
Rates, Rules and Regulations Clarification

May 2, 2013

A Sacramento Municipal Utility District Publication

General Manager's Report and Recommendation on Rates and Services, Volume 1

May 2, 2013

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1-888-742-SMUD (7683)

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Executive Summary

This General Manager's Report and Recommendation on Rates and Services ("Report") proposes changes for the period beginning January 2014. These proposed changes will support SMUD's near-term financial stability while initiating a longer-term effort to transition our residential customers to rates that better match the costs SMUD incurs to serve them.

The Report proposes a two-step rate increase of 2.5 percent each year for both 2014 and 2015. This will produce the revenue SMUD needs to pay for the higher costs of renewable power required by the state, for the lingering effects of the recession on growth and low-income energy assistance, and for our debt service obligations.

The Report also recommends a significant restructuring of the existing residential rates that will be phased in over four years, culminating with universal time-based pricing in 2018. This undertaking represents responsible, forward-looking fiscal management on behalf of our customer-owners. We are approaching the proposed rate changes carefully to minimize any customer impacts and to help them with new opportunities for making informed choices about their energy consumption. Among other things, the rate restructuring will help residential customers take advantage of new energy management technologies and new electric services, including solar and electric vehicles.

The gradual, multi-year transition will bring all customers in line with the true cost of electricity and will avoid some customers paying more than it costs for SMUD to serve them. SMUD's goal is to gradually transition from tiered pricing, which is the current structure, to time-based pricing. The transition will span four years with full time-based pricing planned to begin in 2018.

The recommendations make changes to SMUD's Energy Assistance Program Rate (EAPR) to mitigate impacts of the rate transition and to ensure SMUD's electric service remains affordable for these low-income program participants.

The Report also addresses several other proposals to:

1. Amend specific street lighting rates to make efficient LED lighting more cost beneficial.

2. Establish a new Combined Heat and Power (CHP) rate for purchasing electricity from customers who produce both heat and power from nonrenewable generators.

3. Revise late payment penalty fees for certain customers.

4. Close the existing residential electric vehicle rate to new customers in anticipation of new pricing approaches that will be tested in pilot trials.

5. Adopt combined demand and energy criteria for the small commercial rate.

6. Affirm that the current fees for Pole Attachments comply with regulatory requirements.

7. Revise and modify the Rates, Rules and Regulations to enhance clarity and consistency.

Board Strategic Direction on Rates

All of the proposed recommendations in this Report conform to SMUD's stated objectives for rate design and implementation. The SMUD Board of Directors' (Board) Competitive Rates Strategic Direction 2 (SD-2) includes objectives to:

- Establish rate targets that are 18 percent below Pacific Gas and Electric (PG&E) and at least 10 percent below PG&E's published rates for each customer class;
- Reflect the cost of energy when it is used;
- Reduce use of energy during on-peak periods;
- Encourage energy efficiency and conservation;
- Minimize "sticker" shock in the transition from one rate design to another;
- Offer flexibility and options;
- Be simple and easy to understand;
- Meet the electricity service needs of people with fixed low incomes and severe medical conditions; and
- Equitably allocate costs across and within customer classes.

In addition to these rate design objectives, the proposed rate changes will help meet SMUD's financial targets while still providing the following:

- Maintaining a fixed charge ratio of at least 1.5.
- Maintaining access to credit markets.
- Achieving the state's and SMUD's energy efficiency, renewable energy and greenhouse gas emissions targets.
- Meeting the Board's reliability targets while making funds available to increase efforts to support system upgrades and preventive and corrective maintenance of aging infrastructure, which is critical to the safe and reliable operation of the transmission and distribution systems.

- Providing SMUD with the resources to invest in the customer support processes necessary to maintain a high level of reliability, customer satisfaction and confidence.

Rate Increase Drivers

SMUD continues its commitment to minimizing its costs through close, ongoing scrutiny of budgetary expenses within its control. However, without the proposed rate increases, external factors beyond SMUD's control will result in revenues in 2014 and 2015 dropping below levels necessary to meet cost obligations and maintain the current level of credit-worthiness. The primary factors driving the need for the recommended rate increases include the following:

1. The cost of increasing the share of renewable energy in SMUD's portfolio of resources; and

2. The continuing increase in the number of participants in the residential low-income assistance program; and

3. Higher scheduled debt service payments.

To account for these factors, the first step in the proposed rate increase is a 2.5 percent increase on January 1, 2014, with the second step, a 2.5 percent increase on January 1, 2015.

Cost of Renewables

SMUD has long been a proponent of renewable power, adopting goals in 2001 well before the California Legislature's groundbreaking directive for state utilities. By 2010, 24 percent of SMUD's power supply came from renewables, making SMUD the only large California utility to not only meet, but to exceed, the statewide goal of 20 percent. SMUD is now well positioned to meet the 2020 state requirement of 33 percent plus SMUD's own "green energy" program of an additional 4 percent, for a combined 37 percent of renewable sources for its power supply.

The Board has since raised the bar, establishing a new long-term goal of reducing the levels of greenhouse gas emissions from its power supply to 90 percent below 1990 levels, by the year 2050. As stated in the Board's Resource Planning Strategic Direction SD-9, SMUD plans to meet this ambitious goal:

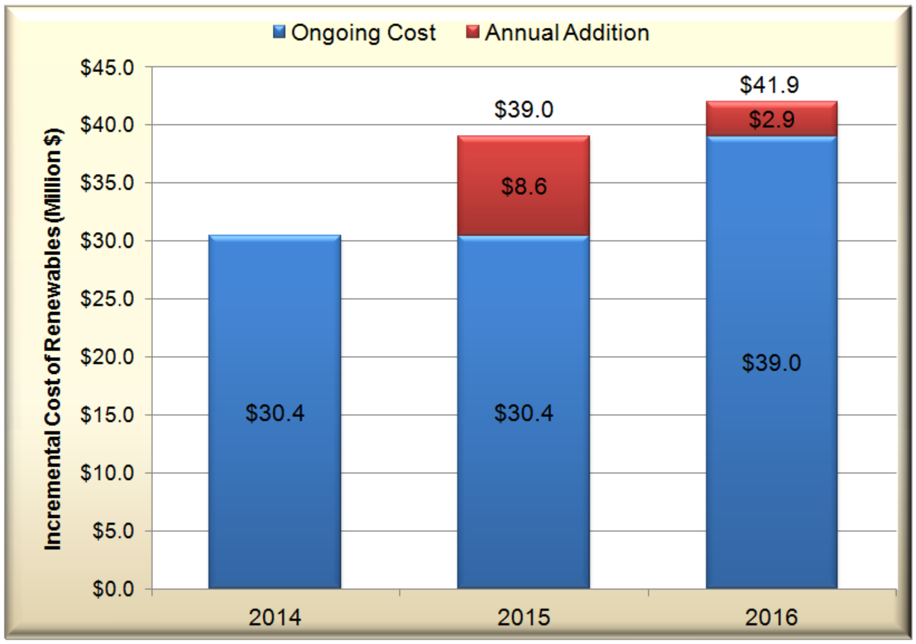
> *"… while assuring reliability of the system, minimizing environmental impacts on land, habitat, water quality, and air quality, and maintaining a competitive position relative to other California electricity providers.[1]"*

Meeting these laudable goals becomes more costly as SMUD competes with the state investor-owned utilities, such as Pacific Gas and Electric (PG&E), for limited renewable power options. Not only have costs for available renewable power increased, so have the constraints on transmission capacity to move the power from remote generation sites to population centers.

[1] SMUD Board Policy, Strategic Direction, Resource Planning, Resolution Number 12-12-12. The State of California mandate for 2050 carbon emissions is 80 percent below the 1990 levels.

In the next three years SMUD will invest in several new renewable projects, including a geothermal generation unit in Nevada, as well as new and expanding contracts for biogas. These contracts are substantially more costly than had SMUD purchased nonrenewable power in existing wholesale markets. As shown in Figure 1, these additional renewable energy contracts are expected to add $30 million to SMUD's $1.2 billion budget in 2014 and an additional $9 million in 2015, or a total of $39 million of added costs in that year.

Figure 1 Incremental Cost of New SMUD Renewable Contracts

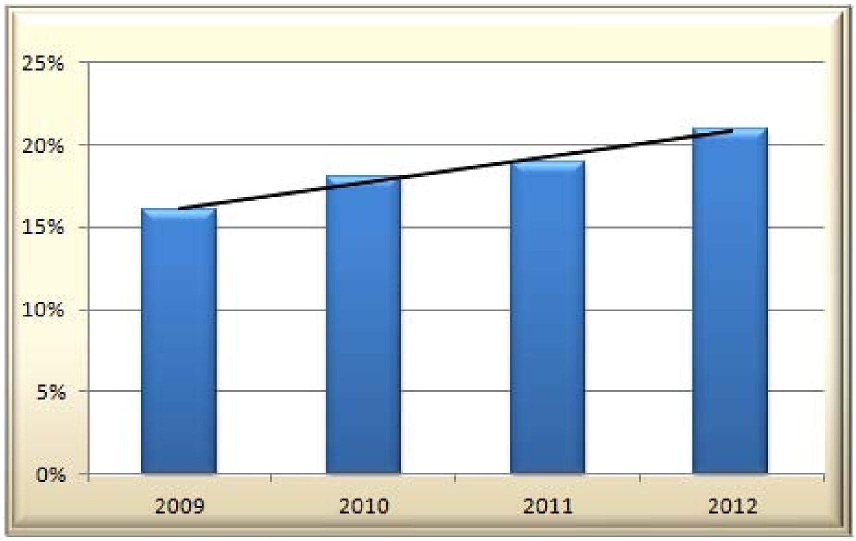


Residential Energy Assistance Program Rate (EAPR)

Another factor contributing to the need for a rate increase is the growth of participation in SMUD's rate discount for low-income residential customers. This is due in part to the recession of the past few years, which has led to increased enrollment, particularly since 2008 when SMUD increased the income ceilings under which customers would qualify to match the income levels of investor-owned electric utilities in the state. In addition, SMUD has made a concerted effort in recent years to make more eligible participants aware of the discount and to streamline the application process.

As illustrated in the following figure, EAPR participation now accounts for more than 19 percent of all customers. During the last rate proceeding, the allowance for EAPR was set at approximately $34 million. However, with growth in participation, the 2014/2015 forecasted allowance will average $50 million per year, an increase of $16 million per year.

Figure 2 Percent of Customers on EAPR



Scheduled Debt Service Payments

Like most public power utilities, SMUD relies on the use of bonds to pay for a portion of its capital projects on an ongoing basis. Going into the recession, SMUD prepared for the expected reduction in revenues by structuring its debt service payments at a lower level through 2010, and with gradual increases through 2015 when they would plateau at a constant level through 2023. Over the last four years SMUD has been able to mitigate the step up in debt service requirements through debt refinancing and lower capital spending. While these efforts have reduced borrowing requirements, debt service payments in 2014 and 2015 are expected to be as much as $16 million per year higher than they were in 2011 when rates were last adjusted.

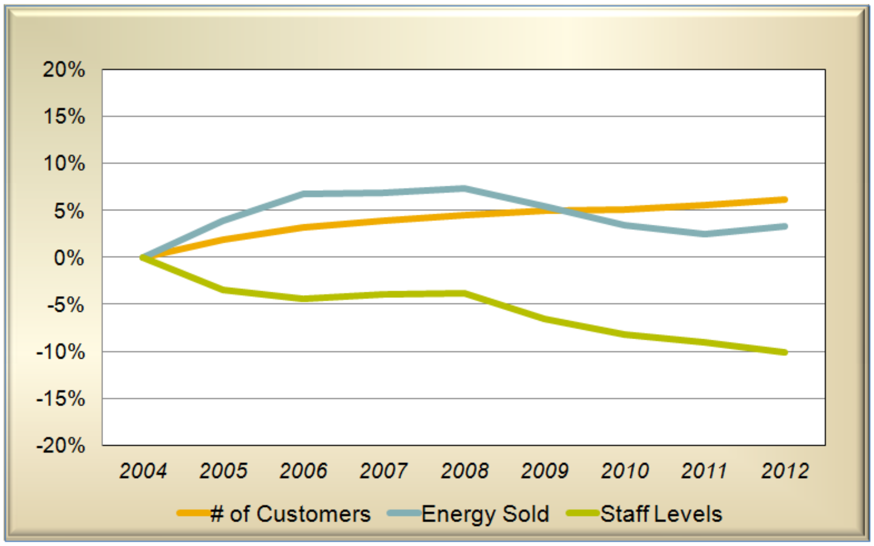
SMUD's Efforts to Control Costs

Customers, Sales and Staffing Levels

With the economic downturn beginning in 2008, electricity sales to customers have dropped by 5 percent and have remained lower than the 2008 sales levels. As illustrated in Figure 3, the sales decline has occurred even as the number of customers has increased slightly. Under California's aggressive energy efficiency standards, new homes and appliances are less energy intensive. Moreover, with SMUD's ongoing support, customers continue to install more conservation measures and solar energy panels in the future. By 2015, SMUD predicts energy sales to drop to 2005 levels.

Realizing the effect of decreases in overall energy sales, SMUD has reduced its staffing levels to 90 percent of the employee count in 2004. However, these cost-cutting measures remain insufficient in the face of accelerated decreases in energy use per customer.

Figure 3 Changes in Sales, Customer Count and Staffing



Equipment and Facilities Replacement Costs

SMUD Board of Directors' Reliability Strategic Direction 4 (SD-4) documents SMUD's commitment to reliability and maintenance of equipment. SMUD recognizes the challenges of an aging infrastructure that includes transmission and distribution facilities that are 40 to 60 years old. SMUD has launched significant projects to replace and update those facilities that are near or at the end of useful life such as underground cable, equipment at large substations and outdated technologies.

The proposed rates would allow SMUD to continue replacing certain facilities and upgrading the distribution system to maintain existing reliability levels and to avoid equipment failures.

Maintaining Sources of Low-Cost Funds

To ensure continued access to bond funding at reasonable rates, it is important that SMUD maintain strong credit ratings.

A key indicator used by the rating agencies to assess financial strength is the fixed charge ratio. The fixed charge ratio is a measure of how much annual cash flow SMUD has available to make its ongoing debt service payments.

SMUD has maintained an A+ rating or higher since 2009, a period when our fixed charge ratio has generally exceeded the Board's targets of between 1.3 and 1.5. However in practice, SMUD budgets for a fixed charge ratio of *no less* than 1.5 in recognition of the critical importance of this measure for maintaining access to credit markets. If SMUD does not maintain its fixed charge ratio at or above 1.5, there could be significant downward pressure on SMUD's credit rating, which would increase the cost to borrow funds.

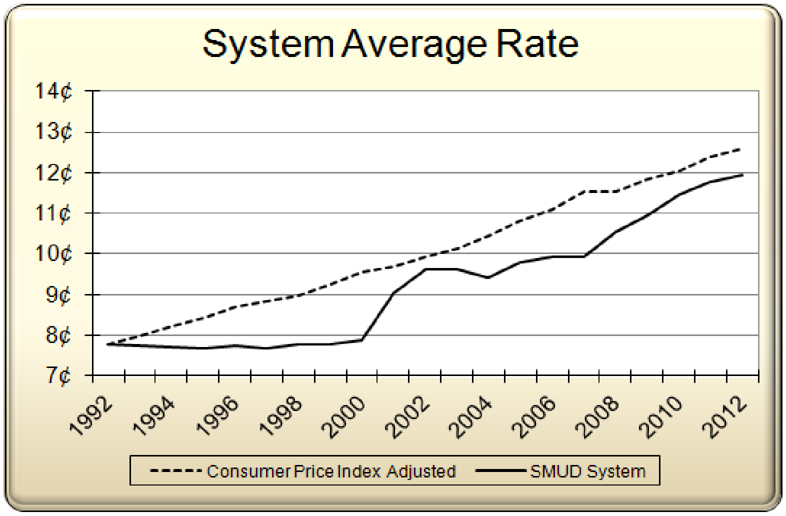
In view of that, the proposed rate increases allow SMUD to maintain the ratio at 1.5.

Competitive Position

Competitiveness

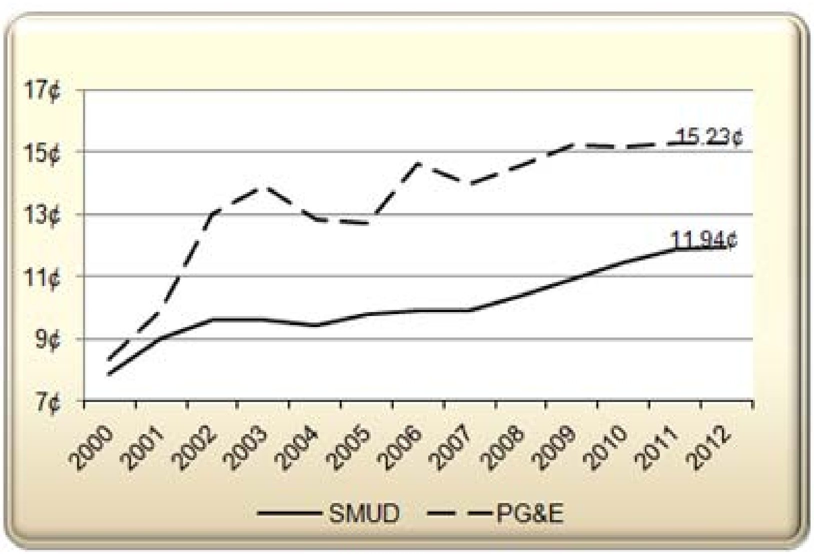
For over 20 years SMUD's system average rate per kWh has increased at a rate that is lower than general inflation, as measured by the Consumer Price Index (CPI) in the following chart. As a result, electric service in Sacramento has stayed affordable.

Figure 4 SMUD System Average Rate vs. CPI



SMUD Board of Directors' Competitive Rates Strategic Direction (SD-2) specifies that SMUD will maintain its average system price at a level that is 18 percent below that of Pacific Gas and Electric (PG&E). As indicated in the following figure, SMUD's current system average rate is just below 12 cents per kWh, which is 24 percent lower than PG&E.

Figure 5 SMUD vs. PG&E System Average Rate



The following table shows that SMUD rates are expected to remain 22 percent and 20 percent lower than PG&E after the proposed 2.5 percent rate increases in 2014 and 2015. This comparison does not include PG&E's recently approved rate increase of 1.8 percent for 2013, or its proposed rate increases for 2014 and 2015.[2]

The SMUD Board of Directors' Competitive Rates Strategic Direction (SD-2) also establishes a metric for competitive system rates that are 10 percent below PG&E for every major rate class. As shown in the following table, SMUD's residential rates in 2013 are 25 percent below PG&E's and most commercial rates are priced even lower[3].

Customer Class	Customer Description	Average Annual Rate PG&E 2013	Average Annual Rate SMUD 2013	Difference Below PG&E 2013	Difference Below PG&E 2014	Difference Below PG&E 2015
Residential	Standard	$0.19034	$0.1344	-29.4%	-27.6%	-25.8%
	Time-Of-Use	$0.17877	$0.1303	-27.1%	-25.3%	-23.4%
	Low Income	$0.09997	$0.0856	-14.4%	-12.2%	-10.1%
All Residential		***$0.16529***	***$0.1239***	***-25.0%***	***-23.2%***	***-21.2%***
Small Commercial	<= 20 kW	$0.19060	$0.1367	-28.3%	-26.5%	-24.6%
	21 - 299 kW	$0.18091	$0.1276	-29.5%	-27.7%	-25.9%
Medium Commercial	300 - 499 kW	$0.16625	$0.1171	-29.6%	-27.8%	-26.0%
	500 - 999 kW	$0.14364	$0.1085	-24.5%	-22.6%	-20.6%
Large Commercial	=> 1 MW	$0.11883	$0.0976	-17.9%	-15.8%	-13.7%
Lighting	Traffic Signals	$0.18016	$0.1048	-41.8%	-37.6%	-36.0%
	Street Lighting	$0.17483	$0.1154	-34.0%	-33.0%	-31.9%
Agriculture	Ag & Pumping	$0.14247	$0.1193	-16.2%	-14.1%	-12.0%
System Average		***$0.15700***	***$0.11935***	***-24.0%***	***-22.1%***	***-20.1%***

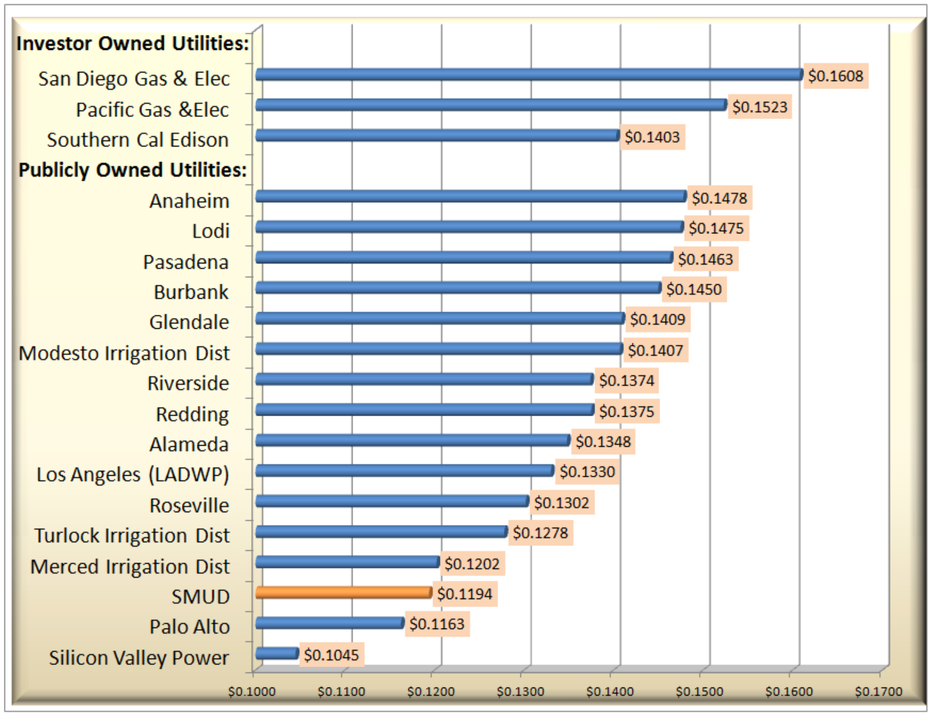
Note: 2013 comparison as of January 2013. The table does not include any PG&E future rate increases in 2013 – 2015.

SMUD's rates are significantly lower than the rates for most other California electric utilities. SMUD's system average rate is 17 percent to 35 percent lower than that of the three large investor-owned utilities within California: PG&E, San Diego Gas & Electric and Southern California Edison. SMUD's rates are also 11 percent lower than the average rate for the state's publicly owned utilities.

Figure 6 shows how SMUD's 2012 system average rate compared with those reported by other California utilities as reported for that year.

[2] PG&E's General Rate Case (GRC) application before the CPUC requests a 6.8 percent rate increase in January 2014 and another 2.6 percent rate increase in January 2015, compared to current 2013 prices. (Sources: GRC A1211009, 11-15-2012 and Advice Letter 4212-E).
[3] Rate comparison based on most recent SMUD SD-2 Report, October 2012.

Figure 6 SMUD System Average Rate Compared to Other California Utilities ($/kWh)



Workshops and Community Participation

SMUD will hold two Public Rate Workshops and a final Public Hearing at the SMUD headquarters building on the dates noted in the table below. At those meetings, staff will present details on the proposed rate changes and provide additional information on the expected impacts to individual customer classes.

SMUD invites its customer-owners to attend these public forums to learn more about the proposed changes, offer comments and ask questions of staff. These forums will also provide valuable feedback for SMUD's Board who will vote on the proposed measures at the public hearing.

In addition, SMUD will make a number of presentations to groups and organizations throughout the community to inform its customers about the proposals in this report. Customers and other interested parties can also provide input by corresponding to SMUD's Board office or by contacting SMUD at (888) 742-7683.

The Public Hearing in July will provide the last opportunity for public input before the Board vote.

Workshops and Public Hearing Schedule

Date & Time	Location	Address
Tuesday, May 28, 2013 6:00 p.m.	*Workshop* SMUD Auditorium	6201 S Street, Sacramento
Tuesday, June 18, 2013 10:00 a.m.	*Workshop* SMUD Auditorium	6201 S Street, Sacramento
Thursday, July 18, 2013 9:00 a.m.	*Public Hearing* SMUD Auditorium	6201 S Street, Sacramento

Revenue Requirement

Summary

This section presents the proposed rate revisions for 2014 and 2015 to the Board, our customer-owners and the interested public. The following table summarizes the recommended 2.5 percent increase in 2014 followed by a 2.5 percent increase in 2015. The table shows that the rate increase is applied equally to all rate classes with each receiving a proportionate share of the increase in 2014 and 2015.

SMUD Revenue After Proposed Rate Increases

Customer Class ($ in Millions)	Current Revenue Forecast	2014 Forecast with 2.5% Increase	2014 Percent Impact	2015 Forecast before additional increase	2015 Forecast with 2.5% Increase	2015 Percent Impact
Residential	$549.2	$563.2	102.5%	$553.0	$566.9	102.5%
Small Commercial <300kW	$337.3	$345.8	102.5%	$347.8	$356.6	102.5%
Small Commercial 300<500kW	$68.8	$70.5	102.5%	$71.1	$72.8	102.5%
Medium Commercial 500<1,000kW	$71.6	$73.3	102.5%	$73.8	$75.6	102.5%
Large Commercial >1,000kW	$172.2	$176.5	102.5%	$179.4	$183.8	102.5%
Agricultural	$8.0	$8.2	102.5%	$8.1	$8.3	102.5%
Lighting	$9.3	$9.5	102.0%	$9.6	$9.8	101.6%
Total	**$1,216.4**	**$1,246.9**	**102.5%**	**$1,242.8**	**$1,273.8**	**102.5%**

Note that the lighting class revenue falls below the 2.5 percent rate increase target. This is because the lighting class revenue includes both energy charges, which are subject to the rate increase, and fees for equipment and maintenance, which are not subject to the rate increase. These fees are reviewed annually and adjusted as necessary.

The remainder of the Report presents the detailed recommendations for rate changes, followed by recommended changes to SMUD’s Rules and Regulations.

Changes to Residential Rates

1. Rate Increase for Residential Rates

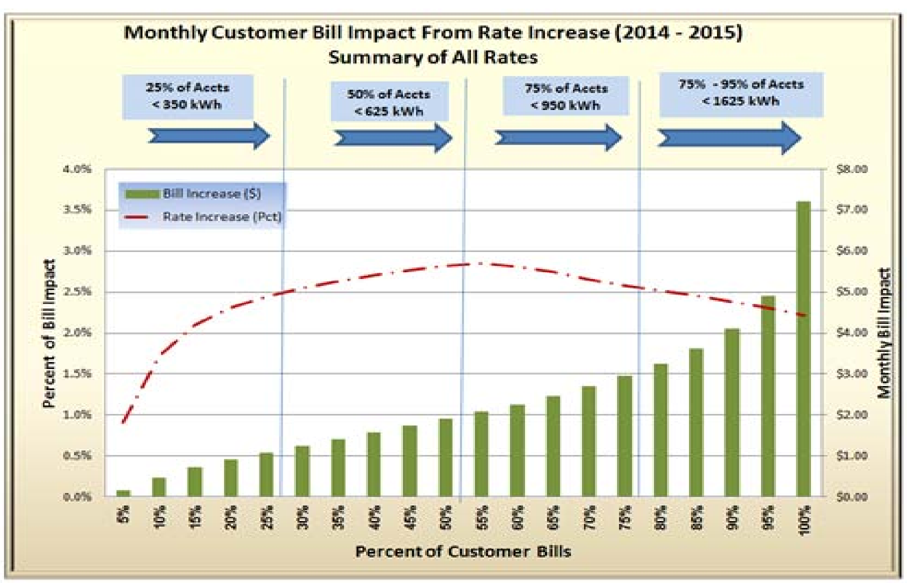
Overview

The proposed 2.5 percent rate increase will not apply to the System Infrastructure Fixed Charge (SIFC), which will be $14 in 2014 and $16 in 2015. Instead, the residential revenue requirement will be collected through an addition to energy charges of approximately one third of a cent ($0.0034) in 2014 and slightly more in 2015 ($0.0035). The increase applies to all residential rates including closed electric, open electric, nonelectric, residential time-of-use rate options, and existing pilot programs.

Bill Impacts

The general rate increase for residential customers applies only to the kilowatt-hour charge for energy use. Bill impacts will depend on how much electricity the customer uses each month. The following figure shows the bill impacts if customers' energy consumption remains the same. Half of monthly customer bills — those using less than 625 kWh per month — will see a bill increase of less than $2 per month in 2014 and again in 2015. Another 25 percent of customers, with use up to 950 kWh, will see bill increases below $3 per month through 2015. The customers who use the largest amounts of energy will see bill increases ranging up to $7 per month.

Figure 7 Residential Bill Impact Due to Rate Increase



The dashed line in the figure indicates the relative impact of the rate increase as a percent of monthly bills for the range of customer energy use. The percentage impact on the bill depends upon the relative importance of the three residential bill components: the System Infrastructure Fixed Charge (SIFC), the lower-cost Base Usage energy price and the much higher priced Base Plus energy price.

For example, the energy adder will have the least percentage impact for the customers whose power consumption is below the average. This is because the SIFC accounts for a relatively larger portion of their bills. Beyond that, customers who use relatively little of the higher-priced Base Plus energy will see bill impacts of slightly more than 2.5 percent. In this case, the rate increase addition represents a larger percentage of the lower-price Base Usage. The 25 percent of residential customers who consume the most energy will see impacts of slightly less than 2.5 percent. This slightly lower percentage impact is because the energy charge addition represents a relatively smaller portion of their Base Plus price.

2. Tier Convergence

With very few exceptions, residential customers pay for the electricity they consume on a tiered usage basis. Customers pay a sharply discounted price for energy use at a Base Usage amount. For energy use exceeding this base amount, customers pay for their incremental kilowatt-hours at a price that is nearly double the base charge. SMUD sets the Base Usage energy allowance by season and provides additional allowances for winter electric heating and well pumps for domestic water in rural areas.

Even though the "tiered" structure does not properly reflect the cost to serve individual customers, SMUD and other California utilities implemented this rate design to encourage conservation. In recent years, several studies using utility-level customer data have found that this structure has no measurable impact on conservation[4].

Purpose

The problem is that the tiered rate structure distorts equitable cost recovery. It sets up a counter-productive dynamic in which SMUD must rely on large energy users to support smaller users and, ultimately, to collect a disproportionate amount of the fixed costs associated with this rate class.

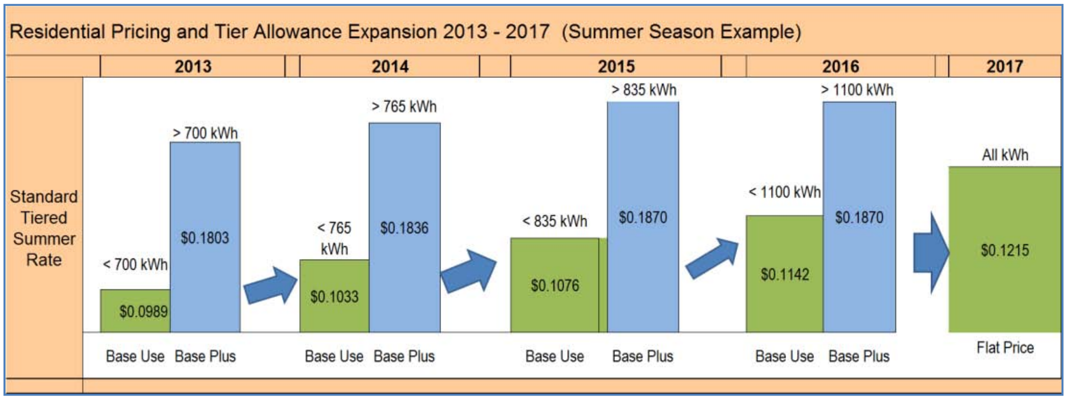
Previous Board rate actions have partially rectified the situation by phasing-in increasing System Infrastructure Fixed Charges, which recover fixed costs, and by redefining the seasonal price periods. Our current recommendations take the next step and propose a transition to time-based rates for all residential customers. Time-based rates will be more effective than tiered pricing in promoting energy conservation when SMUD's costs of power are highest. This will also allow for more equitable cost recovery with charges that better reflect the true cost of power as it is consumed. Our plan is to have residential customers on time-based rates by 2018.

In the meantime, we are proposing to reduce the price spread between the existing tiers — "Tier Convergence" — until 2017 when we would charge a single price per kilowatt-hour for all energy used in a month. This would be done by increasing the Base Usage kWh allowance until all usage is covered by that tier. The following figure presents an example of this Tier Convergence approach for summer rates and tier allowances.

[4] See, for example: "Equity Effects of Increasing Block Electricity Pricing," Severin Borenstein at the University of California Energy Institute, U.C. Berkeley, 11-12-2008.

Other seasons follow the same pattern of expanding the Base Usage allowance and increasing the Base Usage price.

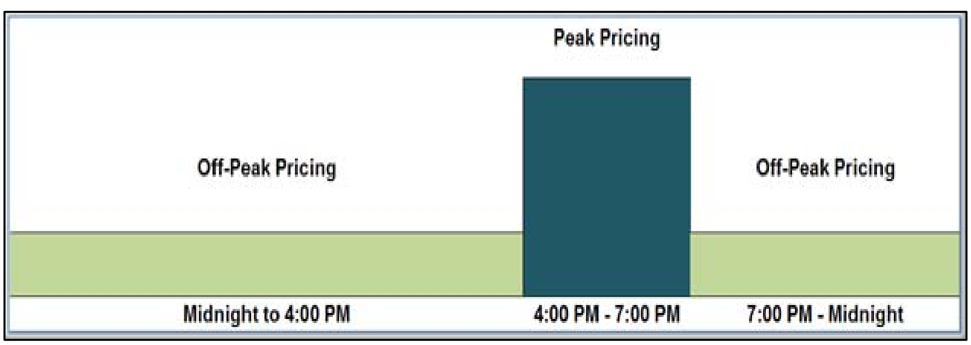
Figure 8 Residential Tier Convergence



In a future rate action, staff plans to propose time-of-use rate options to the Board that could be implemented in 2017[5] , a year before making time-of-use the default rate in 2018. Board policy on rate design has long supported time-of-use pricing as the preferred option. Previous rate actions have converted all commercial rates to time-of-use. Tier Convergence will begin this conversion process for all residential customers. Unlike the current tiered rate design, residential time-of-use rates are much closer to reflecting the true SMUD costs for power for every customer at the time of delivery. SMUD's costs to purchase and generate wholesale power fluctuate depending on the season and time of day. Therefore, it is important to provide customers a rate design that reflects SMUD's cost to deliver the power.

Figure 9 illustrates a conceptual example of a summer weekday time-of-use pricing structure that more closely matches SMUD's costs of service.

Figure 9 Example of Residential Time-of-Use Rate Structure (Summer)

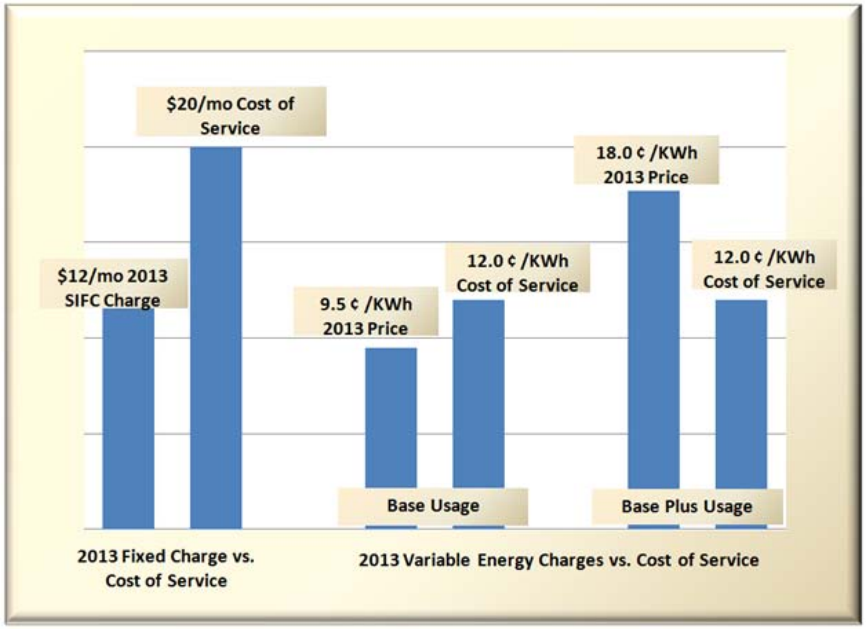


[5] SMUD currently offers two residential time-of-use rates which will be available to customers during Tier Convergence. While these rates do not currently benefit small Base Usage customers, over the course of the Tier Convergence they will become more appealing to customers willing to shift to the lower off-peak periods and customers with roof-top solar generation.

Revenue Impact

Tier Convergence does not increase revenue for SMUD at the residential class level. With each year during the four year transition, the revenue collection for the full range of customers moves closer to SMUD's cost of service. The following figure illustrates SMUD's current residential pricing, compared to the actual costs to serve these customers.

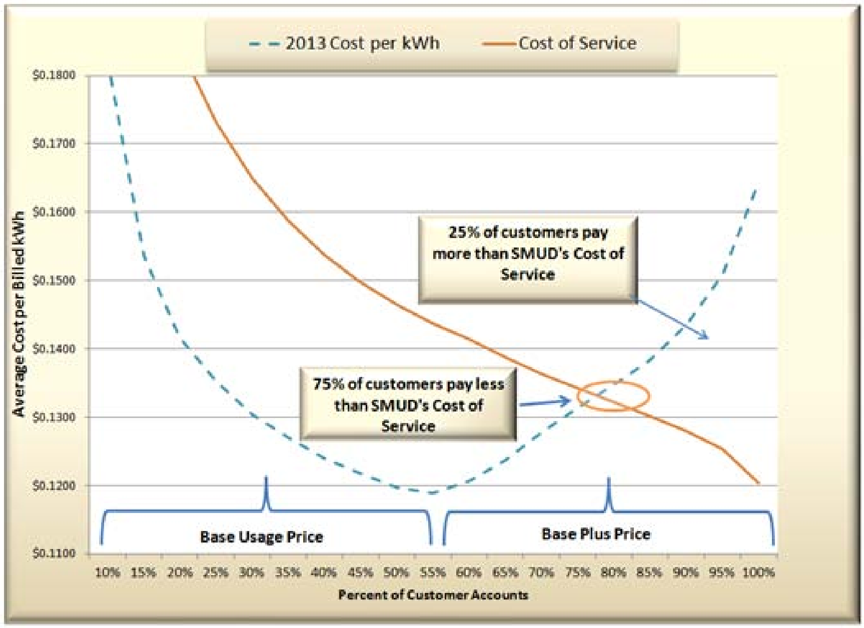
Figure 10 2013 Residential Pricing vs. Cost of Service



In the 2011 rate action, SMUD's Board approved increasing the System Infrastructure Fixed Charge (SIFC) to $12 per month for 2013 with annual increases until 2017. In that year, the SIFC will be $20 and will more closely align with the true fixed costs to serve each customer. The issue addressed in this rate action is the disparity between the variable price of energy and SMUD's costs to provide that energy, which are reflected in the energy charges, not in the SIFC.

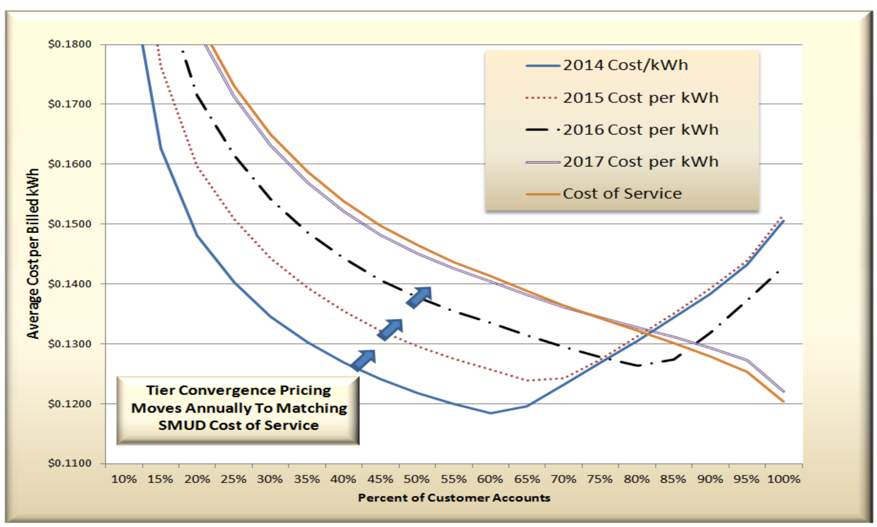
SMUD's average cost of energy is 12 cents per kWh, but at least half of SMUD residential customers pay all or most of their energy costs at Base Usage prices, which average only 9.5 cents per kWh. On the other hand, larger users pay for their Base-Plus energy at nearly double that price, 18 cents per kWh, which is substantially above SMUD's cost to serve them. The following figure shows the effect of this payment imbalance; in 2013 around 75 percent of residential customers will pay less than SMUD's cost of service.

Figure 11 2013 Residential Revenue and Cost of Service



The following figure shows how the proposed Tier Convergence will progressively move residential pricing closer to the cost of service curve for the range of all customers. By 2017 the pricing and cost curves will nearly overlap.

Figure 12 Tier Convergence and Cost of Service

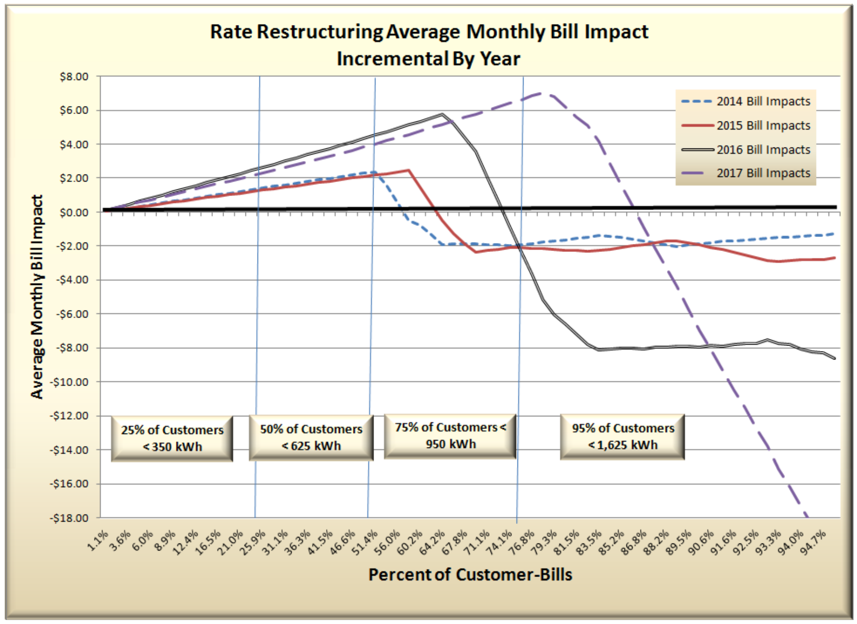


Bill Impacts

While the revenue impact to the residential customer class is neutral for Tier Convergence, the bill impacts for individual customers will depend upon customer usage. Customers who currently fall wholly or substantially in Base Usage will likely see bill increases as the Base Usage prices move up each year. Customers with usage in Base Plus will see a larger portion of their energy use charged at the lower Base Usage price and therefore will likely see bill decreases.

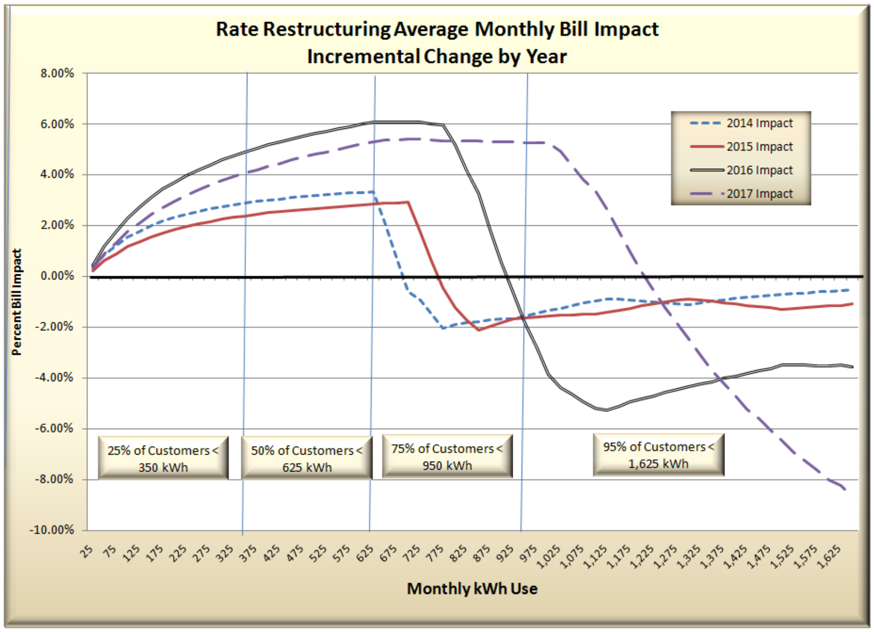
As illustrated in the following chart, in 2014–2015 small energy users will experience bill increases of little more than $2 monthly, while larger users will see bill declines of $2 to $3 per month. In the latter years of 2016–2017, the highest bill increases will be in the $6 to $7 range, while the largest users will see bill decreases of $8 and more.

Figure 13 Residential Monthly Bill Impact from Tier Convergence



The following chart provides a second view of impacts as a percent of customer bills without the Tier Convergence. In 2014 and 2015, the impacts fall within a narrow band of around a 3 percent bill increase and a 2 percent bill decline. In the years 2016–2017, the maximum impacts will be in the plus or minus 5 percent to 6 percent range, although a few very large energy-using customers in 2017 will see larger savings.

Figure 14 Percent Residential Bill Impact Due to Tier Convergence



Recommendations

Adopt the following summer and winter prices and Base Usage allowances per the residential rate schedules in Volume 2 of this report.

Proposed Summer Tier Convergence With Rate Increase						
Period		2013	2014	2015	2016	2017
	SIFC:	$12.00	$14.00	$16.00	$18.00	$20.00
Summer Prices	Base Use	$0.0989	$0.1033	$0.1076	$0.1142	$0.1215
	Base Plus	$0.1803	$0.1836	$0.1870	$0.1870	$0.1215
	Difference	*$0.0814*	*$0.0803*	*$0.0794*	*$0.0728*	*$0.0000*
Summer Base Allowance	Standard	700	765	835	1,100	All kWh
	Well	1,000	1,065	1,135	1,400	

Proposed Winter Tier Convergence With Rate Increase						
Period	Charge	2013	2014	2015	2016	2017
Monthly	Svc Chg	$12.00	$14.00	$16.00	$18.00	$20.00
Winter and Spring-Fall Prices	Base Use	$0.0911	$0.0955	$0.0998	$0.1036	$0.1060
	Base Plus	$0.1738	$0.1771	$0.1805	$0.1805	$0.1060
	Difference	*$0.0827*	*$0.0816*	*$0.0807*	*$0.0769*	*$0.0000*
Winter Base Allowance	Standard (Gas Heat)	620	690	770	1,000	All kWh
	Standard Gas w Well	920	990	1,070	1,300	
	Electric Heat	1,120	1,280	1,500	3,000	
	Electric Heat w Well	1,420	1,580	1,800	3,000	
Spring-Fall Base Allowance	Std Gas	620	690	770	1,000	All kWh
	Well Gas	920	990	1,070	1,300	
	Std Elec	800	920	1,100	3,000	
	Well Elec	1,100	1,220	1,400	3,000	

3. Energy Assistance Program Rate (EAPR)

SMUD's EAPR program keeps electric service affordable for low-income customers. With the Tier Convergence, higher-use customers will see lower bills and lower-use customers will see higher bills. To reduce the impact of the Tier Convergence on EAPR customers, SMUD proposes to decrease the discount to high-use customers and to increase the discount to low-use customers, which will reduce the overall impact of the Tier Convergence on EAPR customer bills. The changes in discounts are designed to keep the overall discount to the class of EAPR customers at the same level it is today.

SMUD currently provides the following discounts for qualifying EAPR customers:

- A lower-priced System Infrastructure Fixed Charge (SIFC), which starting at a lower base in 2012, increases annually by $1 for every $2 increase in the standard undiscounted bill until 2017;

- A 35 percent price discount on the Base Usage energy rate per kilowatt-hour (kWh);

- A 30 percent price discount on the Base Plus energy rate for the next 600 kWh above Base Usage; and

- No discount on the energy use that exceeds 600 kWh above Base Usage.

The current EAPR energy discounts are proposed to be changed under the Tier Convergence proposal since the discounts now apply to the tiered quantities that will be changing each year and disappearing entirely in 2017. Without a new discount structure, the total discount would change dramatically.

To provide simplicity and ease of understanding the new EAPR discounting plan, staff elected to offer a single maximum annual discount cap, applicable to all rates and all seasons. Customers with domestic wells will receive a higher discount cap. The following table shows how the discount elements currently in place compare with those proposed in 2017.

*Monthly EAPR Discount Comparison Current vs. 2017**

Current 2013 EAPR Discount	
Fixed Charge Discount	$8.50
Energy Discount	
Base Usage	35.0%
Next 600 kWh	30.0%
Cap	Base + 600 kWh

Proposed EAPR Discount in 2017	
Fixed Charge Discount	$11.50
Energy Discount	
All kWh up to cap	48.0%
Total Discount Cap	$42.00

**Customers with domestic wells will receive an additional $12 per month discount cap.*

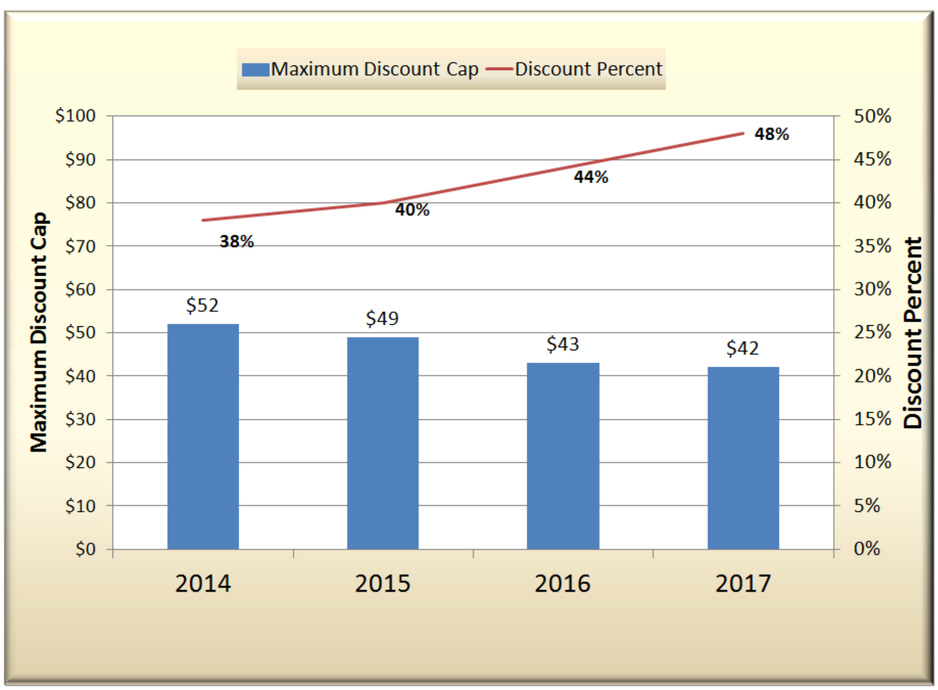
Revenue Impact

The new discount and cap approach to EAPR will keep the overall SMUD budget for the low-income rate program constant.

Bill Impacts

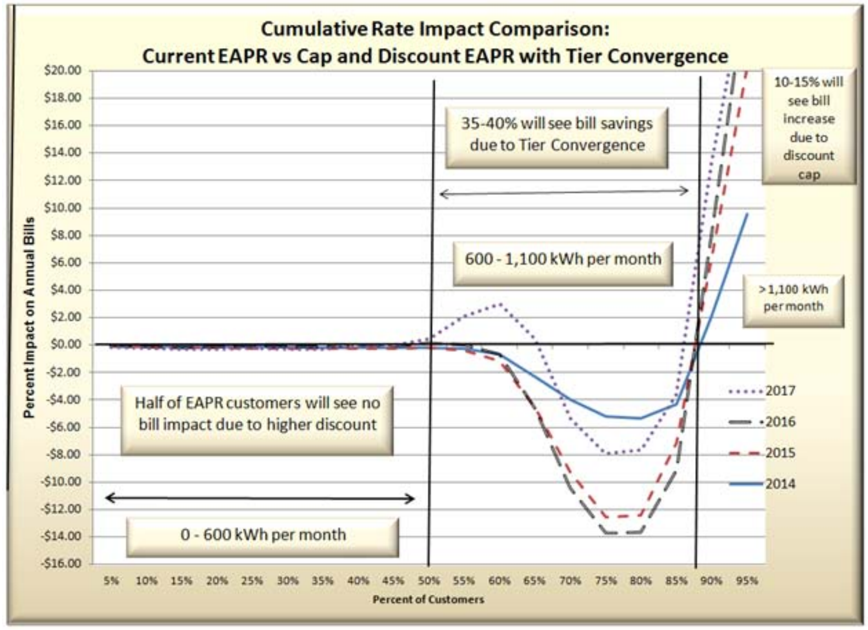
As the Base Usage prices increase each year due to Tier Convergence, the proposed discount will also increase to counter its impact. This approach will front-load the discount, shifting more of the discount dollars to smaller energy users, while lowering the discount maximum for large energy users. The following chart illustrates this relationship for the four-year transition period.

Figure 15 Proposed EAPR Discount and Cap



The net effect can be viewed in the following figure, which shows EAPR customers on the proposed discount and cap compared to the same customers on the original EAPR discount. The impact is essentially zero for half of EAPR customers — those using 600 kWh or less each month. The next 35 percent to 40 percent of EAPR customers will actually see more EAPR savings under the proposal, the result of Base-Plus usage being converted to Base Usage pricing.

Figure 16 EAPR Bill Impacts From Discount and Cap



Those EAPR customers averaging more than 1,100 kWh per month — around 10 percent to 15 percent of participants — will see bill increases because of the lower caps relative to the current discount. In recognition of this, SMUD will be offering special energy efficiency programs targeted for these customers. In addition, staff proposes a higher discount cap for customers with pumped water from domestic wells who typically use more monthly electricity. It should be noted that although the proposed discount cap is lower in 2017, many large customers will still experience lower bills as a result of Tier Convergence and the lowering of the Base-Plus Usage price in 2017.

Recommendations

Adopt the following changes per the rate schedules in Volume 2 of this report.

1. Apply the following annual discounts to the applicable standard rates for low-income EAPR participants:

	2014	2015	2016	2017
Discount Pct	38%	40%	44%	48%

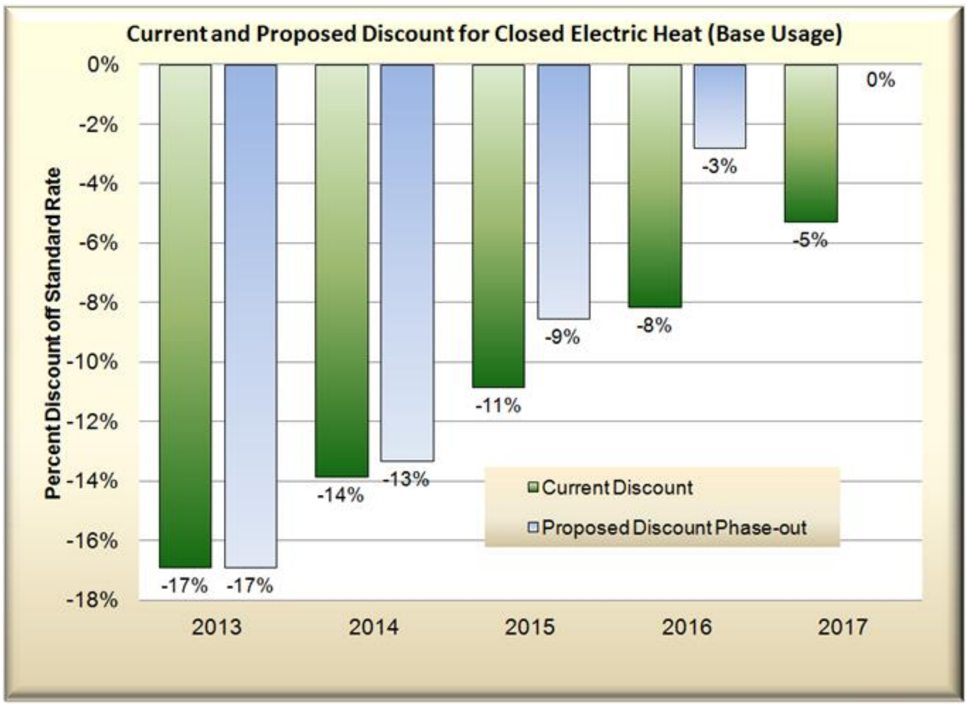
2. Make the total monthly discounts subject to the following maximum discounts:

	2014	2015	2016	2017
Maximum Credit	$52	$49	$43	$42
With Wells	$64	$61	$55	$54

4. Changes to Closed Electric Heat Rate (RSC)

Approximately 18,000, or 3 percent, of SMUD's residential customers remain on the discounted electric heat rate (RSC), which has been closed to new accounts since 1996. Originally, this group received a 20 percent discount on their winter pricing. In the previous 2011 rate action, the Board agreed to not provide an additional energy discount in compensation for the increasing System Infrastructure Fixed Charge. In effect, this action reduces the RSC discount for Base Usage by 3 percent annually; by 2017 the discount will have been reduced to only 5 percent.

Figure 17 Proposed Phase-Out of Closed Electric Discount



Staff recommends that the RSC discount be phased out by the end of the Tier Convergence in 2017. As indicated in the preceding chart, the proposed phase-out will be only slightly more aggressive than the current reduction.

Revenue Impact

Removing the discount for closed electric heat will result in more revenue than would be otherwise collected from this small group of customers. This revenue will be re-allocated to other residential rate payers as part of the new Tier Convergence pricing. The net result will be no revenue impact from this proposal.

Recommendation

Adopt the following Winter and Spring-Fall prices for the closed electric heat rate (RSC) per the rate schedules in Volume 2 of this report. The 2013 prices are shown for comparison :

New Closed Electric Heat Rate						
Period	Charge	2013	2014	2015	2016	2017
Monthly	Svc Chg	$12.00	$14.00	$16.00	$18.00	$20.00
Winter Prices	Base Use	$0.0757	$0.0828	$0.0912	$0.1007	$0.1060
	Base Plus	$0.1443	$0.1542	$0.1578	$0.1578	$0.1060
	Difference	*$0.0686*	*$0.0714*	*$0.0666*	*$0.0572*	*$0.0000*
Spring-Fall Prices	Base Use	$0.0822	$0.0867	$0.0912	$0.1007	$0.1060
	Base Plus	$0.1508	$0.1542	$0.1578	$0.1578	$0.1060
	Difference	*$0.0686*	*$0.0675*	*$0.0666*	*$0.0572*	*$0.0000*

5. Changes to Closed Thermal Energy Storage Rate (RTT)

Purpose

SMUD created the residential thermal energy storage rate (RTT) in 1988 to provide an incentive for experimental equipment that created cold water during off-peak hours for circulation in the residence during peak hours. The rate, which offers a discount on the off-peak energy prices, has been closed to new entrants. Participation has declined over the years as the original RTT customers replace their thermal storage systems with more conventional units. Site visits this year resulted in approximately 77 more customers being removed from the RTT rate because their systems had long been out of service and had been replaced. One customer remains on the rate. Staff proposes that the discount for this lone customer be phased out over the next four years.

Revenue Impacts

The phase-out of this rate option will have virtually no impact to revenue.

Bill Impacts

The single RTT customer would see an annual bill increase of approximately 6 percent per year over the four-year period.

Recommendation

Phase out the RTT credits to the time-of-use option 1 rate over a four-year period, beginning in 2014 per the rate schedules in Volume 2 of this report. The credits would be reduced in equal installments reaching zero in 2017.

6. Residential Electric Vehicle Rates (RTEV)

Purpose

The home charging of electric vehicles (EV) is expected to become an increasingly common addition to residential power consumption. This may add to SMUD revenues, but create a problem if it leads to overloading local transformers. Some electric vehicle chargers on the market can draw up to 19 kW, about the same as five to six houses running their central air-conditioners.

Given what is now known about charger loads, SMUD's current electric vehicle rate (RTEV) does not adequately reflect the potential impact and cost of EV charging on neighborhood transformers for the following reasons:

- The 8 p.m. summer start for the off-peak period is too early, since loads from AC equipment and other usage remain close to peak until later in the evening. This exposes the local transformer to potential damages from vehicle charging loads.
- The same problem extends to RTEV's designation of weekends as off-peak since charging overloads can occur on any day, including Saturday and Sunday.

Moreover, RTEV was not designed as a separate rate; it simply adapted the residential Option 1 Time-of-Use Rate (R-TOU), but without a System Infrastructure Fixed Charge (SIFC) and with discounts on the off-peak energy pricing. Because of this, RTEV does not recover SMUD's costs for metering, billing and associated expenses to operate and maintain this rate.

The concern is that during this time, RTEV with its attractive off-peak will compete unfairly with the pilot rate alternatives. In fact, without further action, RTEV will become even more attractive because its energy prices will decline annually along with those of the associated R-TOU. The energy adjustments are automatic, corresponding to annual increases in the SIFC in the R-TOU from $12 in 2013 to $20 in 2017. As noted, RTEV has no SIFC, so these kWh price reductions will result in windfall savings to customers and cause SMUD to not collect its costs to serve these customers.

SMUD has launched several electric vehicle rate pilots with the intent of replacing RTEV. The evaluation of these pilots will be available in 2014 when they will help staff make any future design changes for new recommended rates.

Revenue Impact

Closing this rate will have little, if any, impact on revenue based on the small number of customers on this rate and the replacement pilot rates to be offered.

Recommendations

1. Close the current RTEV to all new customers as of January 1, 2014. Allow current customers to remain on this rate option.
2. Leave the current RTEV off-peak credits in place, unmodified by the proposed rate increases.
3. Post the alternative electric vehicle pilot rates on SMUD's website. Refer to this site in the EV Option section of the Residential Rate Schedule.

7. Smart Pricing Pilot Rates

Purpose

In September 2013, SMUD will conclude a two-year study of residential pilot rates designed to test customer response to peak pricing during summer months. Under the terms of the pilot, which received substantial support from the U.S. Department of Energy, the participants will return to their applicable standard rates and the pilot rate schedules will be retired. What follows will be a period of evaluation that will help inform SMUD regarding the design of future residential time-dependent pricing to be recommended in a future rate action.

During that time, the original pilot rates — modified to conform to other residential pricing changes — may be extended to a limited number of other sample participants for the purpose of study follow-up.

Revenue Impact

There is no revenue impact to this change.

Recommendations

1. Remove the SmartSacramento® Pricing Pilot Rates from Residential Service Rate Schedule R effective January 1, 2014.

2. Remove the SmartSacramento® Pricing Pilot EAPR Rates from Residential and General Service Energy Assistance Program Rate Schedule effective January 1, 2014.

Changes to Commercial Rates

1. Rate Increase for Commercial Rates

The proposed 2.5 percent rate increases for 2014 and 2015 will be applied to all rate components of SMUD's commercial and agricultural rates. These rate components include the following:

- Energy charges;
- System Infrastructure Fixed Charge (SIFC) per month per meter;
- Site Infrastructure Charge per 12 months of maximum kW; and
- Power Factor Adjustment charges.

An exemption to the across-the-board rate increase will be the small commercial rate for customers with loads that do not exceed 20 kW (GSN_T). In this case, the 2.5 percent revenue requirement will be applied only to the energy charges as a cents/kWh addition to the prices. For small commercial customers, the SIFC charges will remain unchanged from the prices established by a previous SMUD rate action; the charges will be $14 in 2014 and $16 in 2015. The approved energy offset, which subtracts an equivalent cents/kWh from the electricity prices, will also continue by the Board in the previous rate actions.

2. Small General Service Eligibility (GSS_T)

Purpose

SMUD defines its small commercial class as customers whose maximum demand does not exceed 299 kW. It offers two rates for this group: GSS_T, which features a demand charge along with energy charges and GSN_T, which has no demand charge. SMUD assigns the smallest customers the GSN_T rate when demand does not exceed 20 kW for three consecutive months.

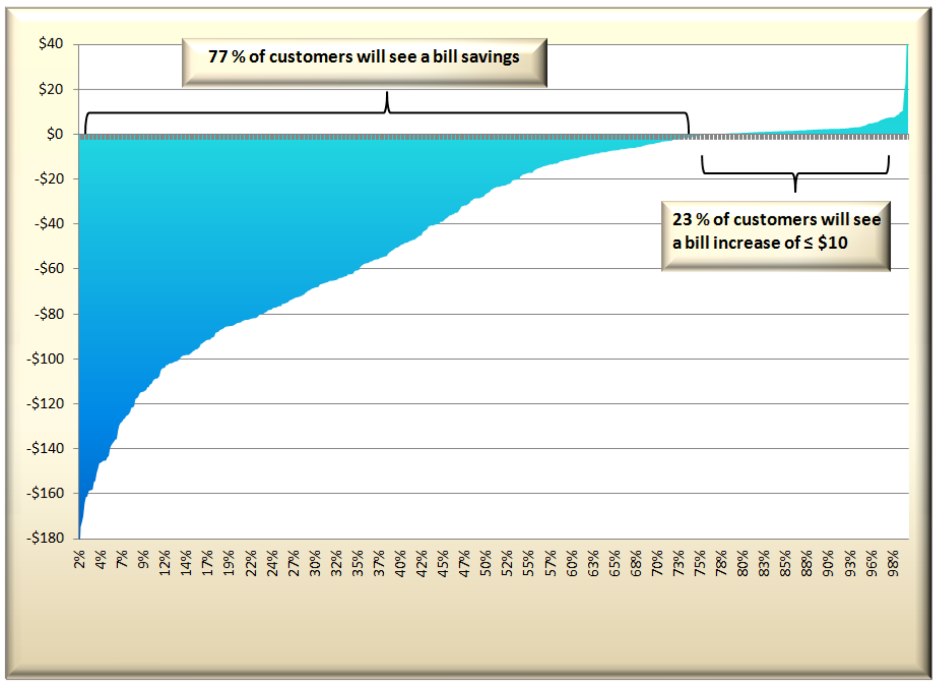
In years past small customers who exceeded 20 kW but had very low energy usage were rarely moved to the GSS_T rate because without a demand meter, the energy usage was not high enough to trigger the installation of a demand meter. In addition, prior to a rate change last year, there was less impact in moving from the GSN_T to the GSS_T. This is because the prior GSS_T rates exempted the demand charge for the first 20 kW. The new GSS_T rate applies the demand charge to all metered demand, which can impose a substantial additional monthly charge for the smallest customers with low energy consumption but occasional high loads. Moreover, with new digital meters, SMUD has identified many more customers who qualify for the GSS_T rate on a demand basis, but not on the basis of their energy use.

The impact is magnified because under GSS_T the highest demand stays on record for an entire year, regardless of how often or when it occurs. Some of the newly affected accounts establish their loads very infrequently or during non-peak periods such as after 8 p.m., on weekends or in winter months. The proposal seeks to mitigate the impact of small commercial customers on the cusp of the two rates by keeping customers on GSN_T unless they exceed both the energy **and** demand thresholds.

Bill Impacts

The following chart illustrates that 77 percent of customers meeting the combination threshold would see a rate decrease. The average savings per customer is approximately $30 per month.

Figure 18 Small Commercial Bill Impacts for Eligibility Change



Revenue Impact

Staff estimates that the new rate eligibility criteria will result in approximately 3,700 customers being transferred from the GSS_T rate to the GSN_T rate. The effective annual revenue decrease will be approximately $1.3 million.

Recommendation

Modify the GS Rate Schedule language as follows per the rate schedules in Volume 2 of this report:

A. Small Nondemand Service (GSN_T)

This rate applies to General Service accounts with a monthly maximum demand of 20 kW or less. Whenever the monthly maximum demand exceeds 20 kW for three consecutive months and the monthly energy usage is at least 7,300 kWh for three consecutive months within a 12-month period, the account will be billed on the applicable demand rate. To return to the nondemand rate, the monthly maximum demand must be 20 kW or less for 12-consecutive months.

C. Small Demand Service (GSS_T)

This rate applies to General Service accounts with a monthly maximum demand of at least 21 kW but does not exceed 299 kW and monthly energy usage of at least 7,300 kWh within a 12-month period. The customer will be billed on this demand rate unless the monthly maximum demand falls below 21 kW for 12 consecutive months or the monthly maximum kW exceeds 299 kW for three consecutive months.

3. Small Commercial Energy Assistance Program Rate

Purpose

SMUD offers qualifying nonprofit organizations a rate discount for premises that house low-income clientele or serve the needs of the homeless. In general, the discount is 15 percent of both the electricity usage and the Site Infrastructure Charge (SIC). It is also 15 percent for the System Infrastructure Fixed Charge (SIFC) for commercial time-of-use rates. This discount approach will follow any rate changes over time.

However, for the two small commercial rates GSN_T and GSS_T, the rate schedules specify fixed dollar values for the discounted SIFC:

- The GSN_T discounted SIFC will change annually through 2017 as noted in Rate Schedule GS.
- The GSS_T discounted SIFC is fixed at $14.10 and will remain so indefinitely unless changed with each subsequent rate action.

As the GSS_T SIFC increases, keeping the fixed discounted SIFC in place will result in an increasingly higher discount than originally intended.

The preferred approach would assign the GSS_T SIFC a percentage discount comparable to the underlying level now in effect. In past years, the discount has ranged between 34 percent and 37 percent; it is currently 36 percent. Staff recommends that the discount be permanently fixed at 35 percent.

Revenue Impact

There is no demonstrable revenue impact because the change is relatively small from a 36 percent discount to a 35 percent discount.

Recommendation

Staff recommends that the GSS_T EAPR discount on the System Infrastructure Fixed Charge be set at 35 percent of the GSS_T SIFC per the rate schedules in Volume 2 of this report.

4. Small General Service Flat Rate (GFN)

Purpose

Characteristically, this group of approximately 500 commercial accounts consists of very small and often remote, but predictable, electric loads that SMUD has found more cost-effective not to meter. A typical GFN example is telecommunication equipment located on SMUD utility poles. Instead of billing based on metered usage, SMUD bills these accounts based on estimates of energy use for the specific equipment, plus a System Infrastructure Fixed Charge (SIFC). Historically, the SIFC for GFN customers has been tied to the SIFC for the small commercial GSN_T rate.

However, as the SIFC for the GSN_T rate has increased, it no longer reflects the lower cost to serve the GFN accounts, particularly since the increasing charges include the cost of metering equipment with its related maintenance and data collection. Since GFN accounts do not receive metering services, the current SIFC for GFN customers needs to be adjusted to better align this fixed charge with SMUD's underlying costs.

The current SIFC for both the GFN and GSN_T rates is $12.00 per month. Staff would separate these costs, substituting an SIFC of $8.25 for GFN, based on more accurate fixed costs for these loads.

Revenue Impact

The proposed recommendation for GFN customers will decrease the current SIFC by $3.75 per month. This adjustment will reduce SMUD annual revenue by less than $21,000.

Recommendation

Adopt the following per the rate schedules in Volume 2 of this report:

1. Decrease the SIFC for GFN customers to $8.25 per month effective January 1, 2014.

2. Increase both the SIFC and electricity usage charges for GFN customers by the overall revenue requirement increase of 2.5 percent effective January 1, 2015.

Changes to Street, Traffic, and Security Lights

1. Rate Increase for Lighting Rates

Except where noted in this section of the Report, the 2.5 percent rate increases in 2014 and 2015 will be applied to all components of the Lighting Schedules except electricity surcharges. The rate increases do not apply to monthly leasing and maintenance charges for street lighting lamps and fixtures. SMUD posts these fees separately on its website, www.smud.org.

2. Updated Definition of "Street"

Purpose

The applicability section of the Street Light Service Rate Schedule does not include a definition for "streets." This has caused some uncertainty in the application of the rates. The proposed language clarifies that streets not readily accessible to the general public will be served under the customer owned and maintained rates only. The recommended language addition is consistent with the current application of the SLS Rate Schedules as well as current SMUD policy.

Recommendation

In Rate Schedule SLS, Street Lighting Service, add the following clause to address the definition of street for Rate Category SL_DOM rates per the rate schedules in Volume 2 of this report:

> ***"This rate is restricted to streets that are defined as right-of-way held in public trust and maintained by the applicable governmental jurisdiction. At SMUD's sole discretion, streets not readily accessible to the general public will be served under the customer owned and maintained rates only."***

Revenue Impact

This modification will not impact revenue.

3. Revised Contract Term for Street Lights

Purpose

Currently SMUD depreciates its Street Lighting assets, primarily its poles, over a span greater than 30 years. At the same time, under its agreement for SMUD-owned and SMUD-maintained street lighting (SL_DOM), customers need only reimburse SMUD within five years for any relocation, removal or modification of the original street lighting installation date.

This proposal will more closely align the cost recovery period with the contractual obligation. Extending the contract duration will appropriately assign unrecovered costs to the requesting customer and protect the general rate base from payment for relocation and removal costs for which capital investment has not yet been fully depreciated.

Recommendation

Adopt the following per the rate schedules in Volume 2 of this report:

Extend the initial contract duration to 15 years.

Modify new section VII. in Rate Schedule SLS, **District-owned and maintained,** to read as follows:

> **A. Relocations and Changes**
> At the customer's request, SMUD may, at its sole discretion, relocate existing equipment provided customer reimburses net expense to SMUD incurred in connection therewith, including appropriate engineering and general expense.
>
> At the customer's request, SMUD may, at its sole discretion, replace existing equipment with new equipment prior to expiration of the existing equipment's service life, provided customer pays to SMUD an amount equal to the unrecovered cost, less salvage value, of the existing equipment to be retired and executes a ***15*-**year contract for service effective with installation of such new equipment.
>
> **B. New Service**
> New service will require an initial contract term of 15 years effective with installation of the service. If service is terminated before the contract term, the customer will be responsible for an amount equal to the unrecovered cost, less salvage value, of the equipment installed.

In Rule and Regulation 4, **Contracts,** modify item 3 to read as follows:

> **"In the case of street lighting service, a contract may be required for a period not to exceed *15* years**."

Revenue Impact

This modification will not impact revenue.

4. Close the SL_CODM Rate

Purpose

Under Rate Schedule SLS, SMUD offers customers four street lighting rate options depending upon whether SMUD or the customer owns and/or maintains the fixtures and lamps. Over the years, very few customers have opted to own the fixtures while having SMUD provide the ongoing maintenance. Only 9 percent of the approximate 13,500 street lighting fixtures currently reside on this Customer-owned, SMUD (District)-maintained (SL_CODM) rate. Recent activity has been especially low, with only 18 fixtures per year having been added to the system since 2000. For SMUD, the management of these few lamps creates multiple operating and maintenance issues. The preferred alternative is to close this rate option to new installations.

Recommendation

Adopt the following per the rate schedules in Volume 2 of this report:

Close the Customer-owned, SMUD (District)-maintained (SL_CODM) rate option to new customers and new installations. Customers will continue to elect to take service from the remaining options of schedule SLS. This action does not create bill impacts to existing customers.

Modify heading and first paragraph of new section VI. **Customer-owned, SMUD (District)-maintained,** to read as follows:

> **"**VI. Customer-owned, SMUD (District)-maintained — Rate Category SL_CODM ***(Closed to new customers and installations)***
>
> ***"This rate is closed to new customers and installations effective January 1, 2014.*** Where the customer owns the street lighting equipment and requests that SMUD supply electricity, switching, and lamp servicing and maintenance, such service will be rendered for lamps and fixtures of sizes and types. Refer to the SMUD website, www.smud.org, for a list of approved equipment."

Revenue Impact

This modification will not impact current rate revenue.

5. Default Metered Street Lighting Rate in 2015

Purpose

SMUD's current unmetered street lighting rates assume photocell control of lamp operation between the hours of dusk to dawn, estimated at 4,000 hours of annual operation. For billing purposes, SMUD assumes the lamps and associated ballast equipment operate at their full rated wattage during each of these estimated hours.

These standardized assumptions no longer apply for the newest generation of light-emitting diode (LED) street lamps, which feature the capability to dim or shut off the lamps in response to street traffic. In these cases, revenue meters will be needed to accurately record the variable energy use and provide the full cost benefits of the new technologies to the customers.

SMUD introduced a metered street lighting rate as an option for new street lighting installations in a prior rate action, and five new accounts, some with LED lighting, have taken advantage of this new rate. Staff believes that the metered rate should be made mandatory to accommodate expected LED or other lighting technologies that will offer more precise and customized lamp usage. The metering will require additional equipment and an added fixed monthly charge. To ready for the change, staff further recommends extending the mandate until 2015.

Recommendation

Adopt the following per the rate schedules in Volume 2 of this report:

Effective January 1, 2015, require all new street lighting installations to be connected to a metered pedestal when installing or connecting five or more street lighting lamps to a single lighting circuit or SMUD point of service, or as determined necessary by SMUD. Customers will pay a monthly System Infrastructure Fixed Charge in addition to energy charges per kWh, charges for maintenance and nonstandard equipment, and surcharges.

Language changes needed to implement this rate change in year 2014:

Incorporate the following sentence in new section IV. Customer-owned and maintained and new section VI. SMUD (District)-owned and maintained in Rate Schedule SLS:

> ***"Effective January 1, 2015, this rate will be available only to new customers and installations that are not eligible for a metered rate."***

Amend section VI, subsection A. "Relocations and Changes," to read as follows:

> "At the customer's request, ***SMUD may, at its sole discretion***, relocate existing equipment provided customer reimburses net expense to SMUD incurred in connection therewith, including appropriate engineering and general expense.
>
> ***At the customer's request,*** SMUD ***may, at its sole discretion,*** ~~will,~~ ~~at the customer's request~~, replace existing equipment with new equipment prior to expiration of the existing equipment's service life, provided ***the*** customer pays to SMUD an amount equal to the unrecovered cost, less salvage value, of the existing equipment to be retired and executes a 15-year contract for service effective with installation of ~~such~~ ***the*** new equipment."

Language changes needed to implement this rate change in year 2015:

Add the following language into the following sections of Schedule SLS, to read as follows:

> *IV. Customer-owned and maintained — Rate Category SL_COM*
>
> ***"Effective January 1, 2015, this rate will be available only to new customers and installations that are not eligible for the default SL_COM_M metered rate."***
>
> *V. Customer-owned and maintained, metered — Rate Category SL_COM_M*
>
> ***"Effective January 1, 2015, eligible street lighting customers requesting new installations of lamps or addition of new lamps to existing accounts default to the metered SL_COM_M***

rate. Eligible street lighting customers will be served under the default rate when 1) five or more lamps are connected individually or in series to a single lighting circuit or SMUD point of service; or 2) as determined necessary by SMUD on its sole discretion."

VII. SMUD (District)-owned and maintained — Rate ***Categories*** SL_DOM ***and SL_DOM_M***

"Effective January 1, 2015, eligible street lighting customers requesting new installations of lamps or addition of new lamps to existing accounts default to the metered SL_DOM_M rate. Eligible street lighting customer will be served under the default rate when 1) five or more lamps are connected individually or in series to a single lighting circuit or SMUD point of service; or 2) as determined necessary by SMUD on its sole discretion. Street lighting customers, who are not eligible for the default SL_DOM_M metered rate, will be served under the SL_DOM rate."

"Effective January 1, 2015, this rate will be available only to new customers and installations that are not eligible for the SL_DOM_M metered rate."

A. Pricing

Rate Category SL_DOM, unmetered

Electricity and Switching Charge ($ per watt of connected load) ***$0.0249***

Rate Category SL_DOM_M, metered

System Infrastructure Fixed Charge per month or portion thereof*.......................... *$8.65

Electricity Usage Charge ($/kWh) - all kWh ***$0.0747***

B. Relocations and Changes

Revenue Impact

This modification will not impact current rate revenue. Cost of implementing this standard is negligible, less than approximately $100 per new pedestal. This cost will be covered by the customer. The number of customers impacted by this rate change is unknown at this time, but generally SMUD adds about 150 lamps per year.

6. Traffic Signals Rate Update

Purpose

SMUD serves approximately 1,774 accounts for traffic signal service from whom we receive about $757,000 in annual retail revenue. This group includes six accounts that remain unmetered under the closed rate SL_TSF. In this rate action, staff proposes updating certain rate components to recover the full costs of providing service.

For the metered traffic signals rate (Rate Schedule TC ILS), staff found that the current System Infrastructure Fixed Charge (SIFC) of $3.15 per month is too low, recovering only a small portion of the ongoing customer related fixed costs. The appropriate SIFC cost should be $5.00 per month. However, the energy charges, adequately recover SMUD's cost for power and need only be adjusted by the proposed 2.5 percent increases for 2014 and 2015.

Staff found the situation reversed for the unmetered traffic signal rate. In this case, the SIFC, in the form of a minimum monthly charge, is appropriately priced, but the energy price is slightly out of alignment with underlying costs. Because energy is not directly metered, SMUD assumes that traffic lamps will operate one-third of the time at the energy price designated for the metered traffic lamps. In 2014 with the 2.5 percent rate increase, the resulting monthly energy-related charge will be $0.0220 per lamp per watt, up from $0.0197 per lamp per watt.

Revenue Impact

The proposed increases to the traffic signal customers will result in a minimal increase of approximately $55,000 in SMUD's overall revenue requirement in 2014.

Recommendation

Adopt the following per the rate schedules in Volume 2 of this report:

Increase the SIFC for metered traffic signals, TC ILS to $5.00 per month and increase the energy usage charge by 2.5 percent effective January 1, 2014.

Increase the monthly per lamp charge for the unmetered traffic signals, SL_TSF to $0.0220 per watt and increase the minimum charge and the SIFC by 2.5 percent effective January 1, 2014.

Increase all traffic signal billing components for rates TCI LS and SL_TSF by 2.5 percent effective January 1, 2015.

Adopt the new traffic signal prices shown in the attached tariff sheets in Volume 2.

Miscellaneous Rate Changes

1. Late Penalty Fees for Public Entities

Purpose

Currently, SMUD permits all customers 19 business days to pay their bills before being considered delinquent. SMUD will then await payment for three more business days after the due date before assessing the customer a 1.5 percent late fee. Certain government customers have expressed difficulty in paying bills within this 22-day period because of their complex payment processing system and multilevel approval process.

Staff believes that SMUD should extend the payment due period for these customers to assure adequate time for making the full payment without undue penalty.

Revenue Impact

Public entity customers will see an extended payment due period from 19 to 30 business days, and a late fee impact of 1.5 percent if payments are not received 33 business days after the date of bill issuance. SMUD anticipates the change will not affect long-term revenue collection, although it will have an initial impact on our short-term cash flow.

SMUD estimates that approximately 57 customers meet the definition of "public entity" and would be eligible for this extended payment due period. This number of customers corresponds to nearly 7,315 accounts with estimated annual retail revenue of $141 million, and a total of $165,000 in late penalties collected from these customers between February 2012 and March 2013 under the current rules.

Recommendation

Adopt the following per the rate schedules in Volume 2 of this report:

Replace the language of Rule and Regulation 6, section IV. with the modified language shown below.

> ***IV. Payment of Bills***
>
> "All customer bills are payable upon presentation to the customer. Payment shall be made at the office of SMUD, at any of the pay stations that SMUD may designate, or to any of its duly authorized collectors... ***Customer bills, with the exception of public entities, that remain unpaid 19 business days from the date of issuance will be regarded as delinquent.***
>
> ***Public entity customer bills that remain unpaid 30 business days from the date of issuance will be regarded as delinquent.***

'Public entity' includes Federal agencies, State of California, University of California, California State University, a county, city, district, special district, public authority, public agency and any other political subdivision of the State of California."

2. Greenergy Update

Purpose

SMUD's Greenergy program allows customers to add more renewable energy to the electricity they receive from SMUD for a small premium charge on their bills. In recent years, the Greenergy program began using a mix of delivered renewable energy and lower-cost renewable energy credits (RECs). This practice helps to insulate participating customers from increases in renewable costs while preserving the intent of the program. Staff recommends updating the Greenergy language in the tariff to reflect this shift in renewables purchases.

Revenue Impact

The language changes will have no impact on revenue.

Bill Impact

The language change will not impact any participating or nonparticipating customer's bill.

Recommendations

Adopt the following per the rate schedules in Volume 2 of this report:

Adopt the proposed language changes to the Green Pricing Options sections in all applicable rate schedules.

SMUD Renewable Energy Option

Customers electing this premium power service will receive an additional monthly electricity usage charge of no less than 1/2 cent and no greater than 2 cents per kWh. SMUD may offer up to three premium rate options representing various blends of renewable resources and/or renewable energy credits within the 1/2 cent to 2 cent range. The actual prices will be published each November and will be based on the expected above market cost of renewable resources for the upcoming year. Participation will be limited to the amount of resources that SMUD is able to secure at or below the 2 cent premium limit.

Fixed Greenergy Fee Options:

Customers wishing to pay a flat fee to elect into a premium power service may opt into one of the following monthly fees. SMUD will purchase a varying blend of renewable resources and/or renewable energy credits necessary to offer the following monthly fees.

Fixed Greenergy All Renewables	$6.00
Fixed Greenergy Advocate	$3.00

3. Net Energy Metering Qualification Expansion

Purpose

California Senate Bill 489 (2011) expanded the definition of electrical generation facilities fueled by renewable resources that qualify for net energy metering (NEM). Previously, only photovoltaic and wind powered generation facilities qualified. The legislation now qualifies any generation technology that SMUD and other California utilities can count toward meeting California's Renewable Portfolio Standard (RPS) requirement for renewable generation.

The expanded list now includes biomass, solar thermal, geothermal, fuel cells using renewable fuels, small hydroelectric, digester gas, municipal solid waste conversion, landfill gas, ocean wave, ocean thermal or tidal current generation facilities. Small hydroelectric facilities can qualify if they do not change the volume or timing of stream flow, or otherwise adversely impact beneficial stream uses.

In adding these new types of generation sources, the rate must also include new wording to define how to measure the capacity output.

Revenue Impact

Under current SMUD pricing, the revenue lost from customer generation is not always offset by savings in power costs to SMUD. Nevertheless, SMUD anticipates that the proposed expansion of NEM-qualified generation will have minor impact on revenue. Photovoltaic, the most commonly installed renewable resource generation, has qualified for NEM for several years. Some SMUD customers have expressed interest in installing wind, small hydroelectric and digester facilities, but because of cost and practicality, staff expects to see few of these installations.

Recommendation

Adopt the following per the rate schedules in Volume 2 of this report:

Update the NEM Rate Schedule to expand the additional qualifying renewable generation facilities required by law and to define how generation capacity is measured.

4. Campus Billing

Purpose

The Campus Billing Option provides qualified commercial customers who have multiple meters with an alternative billing consolidation that can result in lower charges. For SMUD, the intent of the option is to credit the load diversity, experienced at the substation level, back to the customer by aggregating the demand and usage of all meters on the campus. The customer, in turn, could see lower demand charges, and the consolidated usage might also qualify them for a less costly rate.

The current criteria for determining Campus Billing eligibility are:

1. Contiguous site.

2. Same legal entity buying and consuming the power at the site.

3. No submetering on campus to third parties.

4. Special facilities charges applied to recover additional meter/metering expense.

5. Single point of contact at the place of business both for billing and service questions.

6. All accounts served from a common rate and service voltage.

7. Use of parallel systems for shifting load between different rate offerings is not allowed.

8. Each meter is capable of interval metering on each service entrance.

Over the years, this criteria and the accompanying description of the option in the tariffs have proven insufficient to cover complications and contingencies that have arisen. As a result, SMUD staff has developed a Campus Billing Policies and Procedures document to provide detailed guidance on the application and implementation of the rate option in all situations. However, since this internal staff document has not been approved as part of the tariff, the interpretation of how to apply Campus Billing has at times led to misunderstandings between customers and staff. In some cases, the original requirements of the billing option were applied inconsistently.

Staff proposes to create a separate and more detailed tariff sheet devoted solely to the Campus Billing option. Among other enhancements, it would add three additional criteria. One would clearly specify the requirement for a single substation feed — the original, but now unstated intent of the option. It would also clarify which rates and combination of rates would be eligible.

Revenue Impact

These recommended changes will have no revenue impact to SMUD nor will they impact customer bills.

Recommendations

Adopt the following per the rate schedules in Volume 2 of this report:

Create a separate Campus Billing Rate Schedule (1-CB) that will add the new requirements and clearly define the policies and procedures developed by staff with regard to Campus Billing. This rate schedule is included in Volume 2 of this Report.

Add the following additional criteria:

- **All the meters must feed off the same substation as determined by SMUD.**
- **At least one account is currently on a GS-TOU Rate as defined in Rate Schedules GS-TOU1, GS-TOU2, or GS-TOU3.**
- **The campus account maintains or exceeds GS-TOU3 eligibility.**

5. Combined Heat and Power Rate (CHP)

California Assembly Bill 1613 (2010) added a chapter to the Public Utilities Code (PUC) that requires local publicly owned electric utilities serving retail end-use customers to provide a market for the purchase of excess electricity generated by a combined heat and power system (CHP), at a just and reasonable rate to be determined by the governing body of the utility.

Purpose

SMUD implemented a feed-in tariff (FIT) January 1, 2010, to purchase local power generation within SMUD's service territory. The FIT includes a cap of 100 MW total and provides two pricing schedules; one for solar units and one for CHP units. The FIT was fully subscribed with solar units on the first day of offering and is no longer available to potential CHP customers. As a result, SMUD has developed the 1-CHP Rate Schedule.

Revenue Impact

The CHP excess generation prices reflect SMUD's underlying avoided cost for procurement and delivery of comparable power during the specified terms and time periods. Prices will be differentiated by delivery voltage, season and time of day. CHP excess generation prices will be reset each January 1 and apply for that calendar year.

Fixed costs are recovered through a Reserved Capacity charge to compensate SMUD for standing ready to supply supplemental service, backup electricity, and other services/electricity during CHP facility maintenance.

Revenue may be somewhat impacted by the departing load of the self-generator. To the extent that SMUD's retail energy prices exceed associated variable costs there will be some revenue erosion. The revenue erosion per kWh should be minimal. It is too early to forecast how energy sales will be diminished by departing load. SMUD currently has one customer installing a CHP system with the assistance of grant funds. Because of the cost and complexities of installing a CHP system few, if any, other customers will follow suit.

Recommendation

Adopt the Combined Heat and Power Rate Schedule 1-CHP that is included in Volume 2 of this Report.

6. Pole Attachment Fees

California Assembly Bill 1027 (2011) added specific language to sections 9510-9520 of the PUC regarding pole attachment rates, procedures, terms, and conditions of lease pole contracts and fees. The law now requires that before adopting, or increasing a fee, or adopting or changing the terms and conditions of a lease pole agreement, SMUD shall calculate and adopt the fee or lease agreement through a formal public process following guidelines and formulas prescribed in PUC section 9510-9520.

SMUD's current lease pole agreements, pricing formula and rates adopted prior to January 1, 2012, are grandfathered by AB 1027 and are valid until the contract, rate, term, or condition expires or is terminated according to its terms.

SMUD is including this item in this rate process to meet the legal requirement prescribed in AB 1027.

Purpose

SMUD has open-ended “lease pole contracts” with outside entities that pay fees for the right to use SMUD poles for specific attachments. As stipulated in the terms and conditions of the existing agreements, the pole attachment rates are increased by 10 percent every three years. SMUD bills for this service on a semi-annual basis, in June and December. The last rate adjustment based on the formula provided in the lease pole contracts was implemented in December 2012.

SMUD’s policy and procedures prescribe that fees be based on the most recent three-year average cost for providing service. SMUD has reviewed and updated its pole attachment analysis to incorporate cost data for calendar years 2010, 2011 and 2012. The pricing formula reflects the guidelines set forth in PUC sections 9510-9520 and assumptions adopted in prior rate revisions.

The most recent study, based on a review of three years of data, indicates that the cost for SMUD to provide service is $12.52 per pole attachment and $5.32 per anchor attachment. SMUD has yet to study the cost of service for cell tower attachments and will include these fees in this Report in the near future.

Revenue Impact

This section of the Report fulfills legal requirements and fiscal impact on revenue is very minimal, less than $1,300 a year.

Recommendation

To comply with AB 1027, set the fees for all new pole and anchor attachment contracts executed after January 1, 2012 based on the most recent SMUD cost information - $12.52 per pole attachment and $5.32 per anchor attachment.

7. Rule and Regulation 6 Billing, Payment of Bills, and Credit

Purpose

Rule and Regulation 6 requires several modifications to provide for technology improvements, clarification of billing practices and tightening the establishment and maintenance of acceptable credit.

Billing Period

The language in the Billing Period section needs revision to reflect the use of electronic billing data for rendering bills and the exceptions to this practice.

Recommendation

In section I. delete the following language:

> ~~*Customer bills will normally be rendered for scheduled billing periods of approximately one month. Bills for electric service will be based upon meter reading or upon estimates as provided in section B hereof.*~~

Replace with:

> ***"Customer bills will normally be rendered for scheduled billing periods of approximately one month. Bills for electric service will be based upon: 1) electronic meter data; 2) meter readings where the customer has opted-out of smart metering; or 3) estimates as provided in section II hereof."***

Add New Section Regarding Installed Capacity

The application of installed capacity for customer billing purposes has at times created confusion and debate among customers. SMUD internally uses a consistent definition and application of installed capacity. For transparency and customer guidance, it is important to provide this information to the public.

Recommendation

Replace the term "installed capacity" with "***contract capacity***" for billing and in the rate schedules.

Define contract capacity and its application in Rule and Regulation 1.

Insert the following section in Rule and Regulation 6 to establish SMUD's prerogative to use contract capacity for billing purposes.

> ***"III. Use of Contract Capacity for Billing***
>
> ***Where a customer has requested dedicated service, or is utilizing less than 50 percent of equipment sized specifically to meet the customer load, or requires service of 10 MW or greater, SMUD may, at its sole discretion, ensure cost recovery (or marginal cost recovery for equipment utilization of less than 50 percent) of the distribution facilities capacity by billing the Site Infrastructure Charge based on the applicable Contract Capacity."***

Multiple Section Changes

In the past, SMUD used an external credit bureau to determine a new customer's credit-worthiness. The Dodd-Frank legislation, enacted in 2010, requires that customers be notified when their credit is being evaluated by an external agency. To comply with the required notifications would necessitate an automated process that is not currently available.

SMUD's credit policy for residential customers is to deem credit established without benefit of a cash deposit until such time as the customer fails to maintain credit to SMUD's satisfaction. Minimizing exposure to delinquencies and write-offs necessitates modification of the parameters for maintaining credit to SMUD's satisfaction.

Recommendation 1

In order to mitigate SMUD's customer-related credit risk, delete the following "Maintenance of Credit" language in Rule and Regulation 6:

~~"A customer's credit may be deemed to be no longer maintained to the District's satisfaction if such customer has two or more delinquent bill payments during the last 12 months, has been disconnected for non-payment, has two returned checks, a default on an installment, or an unpaid closed account."~~

Replace with the following language:

"A customer's credit may be deemed to be no longer maintained to SMUD's satisfaction if such customer 1) has one or more delinquent bill payments during the last 12 months; 2) has one or more returned payments in the last 12 months; 3) has been disconnected for nonpayment; 4) has defaulted on an installment; or 5) has an unpaid closed account."

Recommendation 2

In Rule and Regulation 6, "Dishonored Payments," delete language on the maintenance of customer credit history:

~~When checks or electronic funds transfers are received as payment for electric bills, deposits or other charges, and are subsequently dishonored or rejected by the bank, the District may require a fee in addition to redemption of the amount of the original check or electronic funds transfer. Dishonored payments and related charges must be redeemed and paid immediately or the District may thereafter discontinue service in accordance with Rule and Regulation 11 or take other appropriate action as necessary. The District will set the fee for dishonored payments annually based on average costs.~~

Replace with:

"When checks or electronic funds transfers are received as payment for electric bills, deposits or other charges, and are subsequently dishonored or rejected by the bank, SMUD may require a fee in addition to redemption of the amount of the original check or electronic funds transfer. Dishonored payments and related charges must be redeemed and paid immediately in certified funds or SMUD may thereafter discontinue service in accordance with Rule and Regulation 11 or take other appropriate action as necessary. SMUD reserves the right to determine the form of acceptable payment. SMUD will set the fee for dishonored payments annually based on average costs for handling dishonored payments.

Certified funds to include, but may not be limited to:

- ***Cash***
- ***Credit card payment authorized by credit card provider***
- ***Cashier's check***
- ***Money order"***

Recommendation 3

In Rule and Regulation 6, "Delinquent Accounts," delete language:

~~In the event a District representative must make a field call to effect collection of a delinquent electric service bill, deposit or other charges, the customer may be required to pay a field service charge in addition to the delinquent amount. Service may be discontinued pursuant to Rule and Regulation 11 if this charge is not paid at the time of collection. Upon restoration of a service disconnected for non-payment, the past due amount, in addition to any other related charges, must be paid in cash, money order, cashier's check, or credit card only. The District reserves the right to consider other payment methods as deemed appropriate. The District will annually set the charge for field service on delinquent accounts based on average costs.~~

Replace with:

"In the event a SMUD representative must make a field call or mail a disconnection notice

to effect collection of a delinquent electric service bill, deposit or other charges, the customer may be required to pay a field service charge in addition to the delinquent amount. Service may be discontinued pursuant to Rule and Regulation 11 if this charge is not paid at the time of collection or by the due date of the disconnection notice. Upon restoration of a service disconnected for nonpayment, the past due amount, in addition to any other related charges, must be paid in certified funds only. SMUD reserves the right to consider other payment methods as deemed appropriate. SMUD will annually set the charge for field service on delinquent accounts based on average costs."

Recommendation 4

The language in "On-line Check Writing Fee" does not clearly address which online check transactions will be assessed a fee.

In Rule and Regulation 6, delete the current language:

~~***On-line Check Writing Fee***~~

~~***When a customer, for payment of any bill owed the District, requests an on-line check a transaction fee will be required for each check for online check writing based on average costs.***~~

Replace with the following:

XIII. Customer Service Assisted Payment Fee

"A customer service assisted payment is the result of a SMUD representative drafting customer bill payment(s) from a credit card, checking account or savings account. When a customer requests, for the payment of any bill owed to SMUD, a customer service assisted payment, there will be a transaction fee. The transaction fee is based on the average cost of providing such service. Fee schedules are available at the SMUD website, www.smud.org."

Rates, Rules and Regulations Clarifications

1. Overview

As part of this rate process, SMUD staff reviewed the Rates, Rules and Regulations (Schedules) for clarity and consistency. This section of the Report presents the substantive changes proposed by staff. These include any changes that affect SMUD's business practices or the understanding or application of the rates. Whenever possible, staff standardized language and presentation and deleted wording that no longer applies. In instances where a schedule lacked clarity or specificity, staff enhanced the current descriptions by adding or substituting language.

Staff also made many minor changes of a non-substantive nature that are not detailed in this Report. These consisted largely of cosmetic improvements to formatting, spelling corrections and the order in which information is presented.

2. General Changes to Rate Schedules

Purpose

This section proposes changes to existing SMUD's Rates, Rules and Regulations effective January 1, 2014, that provide consistent language or language clarification but do not alter any pricing components. These modifications will have no impact on revenue.

Change "District" to "SMUD"

Apart from its Rate, Rules and Regulations, SMUD refers to itself as "SMUD" and not the "District." The term "District" is a generic term that does not specifically refer to SMUD. Moreover, it can cause confusion between the Sacramento Municipal Utility District and other districts within the SMUD service area. Use of "the District" occurs frequently throughout the Rates, Rules and Regulations.

Recommendation

Change the language in all forms relating to "the District" to "SMUD" in all Rates, Rules and Regulations.

Definition of “month”

The term “month” can be construed as a calendar month, 30 days or a standard billing period of 27 to 34 calendar days. Without clarification the reference to “month” is ambiguous.

Given that SMUD’s billing cycles do not coincide with calendar months and rate changes may be implemented to coincide with a customer’s billing period, not a calendar month, it is necessary to define month on the rate schedules.

Recommendation

Add the following language to all rate schedules where a billing period is implied:

> ***“For the purposes of this schedule a “month” is considered to be a single billing period of 27 to 34 days.”***

Mixing of Charges in Dollars/Unit and Cents/Unit

Some charges are shown in dollars per unit and others in cents per unit. The rates per kWh are shown in cents and have to be converted to dollars per kWh for proper calculation of charges. The rates per kWh are shown in dollars on the customer bill.

Recommendation

Represent all rates in dollars per unit.

Surcharge Explanations

Each rate schedule for retail electric service includes a short, descriptive section on the Solar Surcharge (SB1) and the Hydro Generation Adjustment (HGA) even though these charges have individual rate schedules that include detailed explanations. To avoid redundancy and possible inconsistencies among the rate schedules the various rate sheets should refer to the Solar Surcharge and Hydro Generation Adjustment Rate Schedules.

Recommendation

Remove the explanations from the residential, agricultural and commercial rate schedules and reference 1-SB1 and 1-HGA Rate Schedules for information.

EAPR Discount for Nonprofit Organizations

The language in the Energy Assistance Program Rate (EAPR) Schedule indicates that a charitable *and/or educational organization* may qualify for the commercial EAPR discount. The discount is not intended to be available to educational organizations and in practice has not been allowed for educational organizations.

Recommendation

To be consistent with both the intent and the application of the discount program, delete the eligibility reference to educational organizations in the "Eligibility for Nonprofit Agencies" section of the 1-EAPR Rate Schedule.

3. Commercial and Agricultural Rate Schedules

Delete Use of Term "Nominal" in All Schedules

The Applicability section of the agricultural and commercial rate schedules refers to the term *nominal* voltage. The section fails to clearly define the term, which is also inconsistent with other parts of the Rates, Rules and Regulations that use the term "standard" when referring to voltage levels.

Recommendation

Change the language in section I. Applicability from "**nominal**" voltages to "*standard*" voltages.

Applicability: AG and GS Rate Schedules

Rate Schedules 1-AG and 1-GS use the term *billing demand* when identifying the relevant kW for rate applicability. The applicability is misstated as the appropriate kW basis is *monthly maximum demand or contract capacity*.

Recommendation

Change the term *billing demand* to ***monthly maximum demand*** and add ***contract capacity*** to the basis for determining the applicable rate.

Implementation of Energy Efficiency Program or Installation of New Solar/Photovoltaic Systems

SMUD's Commercial General Service rate schedules permit resetting the customer's high demand to lower their Site Infrastructure Charge (SIC) if they implement SMUD-approved efficiency projects or photovoltaic installations. Currently, this language is broadly written, leaving it open to interpretation. This proposal will provide more specific language for meeting the conditions for the billing demand adjustment.

Recommendation

Modify the language in the GS, GS-TOU1, GS-TOU2 and GS-TOU3 as follows:

> "Implementation of Energy Efficiency Program or Installation of New Solar/Photovoltaic Systems
>
> Customers who implement a ***SMUD***-sponsored Energy Efficiency program or ***who install a SMUD-approved*** solar/photovoltaic system to offset their on-site energy usage may request***, in writing, within 30 days of the project completion and commissioning, an adjustment to their billing demand based on the anticipated reduction in kW from the Energy Efficiency Project Worksheet. The adjusted billing demand is valid for 12 months or until it is exceeded by actual maximum demand."***

Eligibility for Agricultural Rate Schedule

Purpose

In 2001 the rates for Agricultural (AG) and General Service (GS) customers with monthly maximum demands of 299 kW or less were on the same rate schedule, 1-GS. Board Resolution No. 01-05-10 designated that, effective January 1, 2002, mandatory time-of-use rates would apply to GS and AG customers with demands 300 kW or greater.

The new rate schedule, GS-TOU3, created at the same time, was not clear that it applied to both AG and GS customers when monthly maximum demand exceeded 299 kW for three consecutive months.

The AG rate schedule clearly states that it applies to customers with demands of 299 kW or less. AG customers with monthly maximum demand exceeding 299 kW for three consecutive months do not qualify for an AG rate and belong on a GS-TOU rate.

Revenue Impact

The language changes will have virtually no impact on revenue.

Recommendations

The recommendation is to modify the language in the AG Rate Schedule to add the following:

> ***"This schedule is mandatory for agricultural accounts with monthly maximum demand that does not exceed 299 kW for three or more consecutive months. The demand for any month will be the maximum 15-minute kW delivery during the month. Agricultural accounts with demands exceeding 299 kW for three consecutive months will be placed on the applicable Commercial Time-of-Use Rate Schedule, GS-TOU1, GS-TOU2 or GS-TOU3."***

It is further recommended that Commercial Time-of-Use Rate Schedules, GS-TOU1, GS-TOU2 and GS-TOU3 include agricultural customers in the Applicability section.

Applicability: GS-TOU1, GS-TOU2 and GS-TOU3

The GS-TOU1, GS-TOU2 and GS-TOU3 commercial rate schedules use the term *demand* and *monthly demand* when identifying the relevant kW for rate applicability. The applicability is misstated as the appropriate kW basis is *monthly maximum demand or contract capacity.*

Recommendation

Replace the terms *demand* and *monthly demand* with the term *monthly* ***maximum demand*** and add ***contract capacity*** to the basis for determining the applicable rate.

Discontinuance of Service: GS-TOU1, GS-TOU2 and GS-TOU3

When a commercial customer disconnects service and then reconnects at the same premise within a 12-month period, the customer may be subject to interim charges. Language to address this situation is contained in the GS and AG Rate Schedules, but is missing from the GS-TOU1, GS-TOU2 and GS-TOU3 Rate Schedules.

Recommendation

The recommendation is to add the following paragraph to the "Billing" section of the GS-TOU1, GS-TOU2 and GS-TOU3 Rate Schedules:

> ***"Discontinuance of Service***
>
> ***Any customer resuming service at the same premise within 12 months after discontinuing service will be required to pay the System Infrastructure Fixed Charges and Site Infrastructure Charges that would have been billed if service had not been discontinued, except when a customer agrees to lock out service during the full period. The System Infrastructure Fixed Charge and Site Infrastructure Charge will be waived during each of those months. Retroactive billing shall be at SMUD's sole discretion."***

Energy Assistance Program Rate (EAPR): GS-TOU1, GS-TOU2 and GS-TOU3

Commercial accounts on all commercial rate schedules may be eligible for the Commercial EAPR discount. The TOU1, TOU2 and TOU3 schedules do not include this language.

Recommendation

Add the reference to the EAPR schedule to the TOU1, TOU2 and TOU3 Rate Schedules.

Eligibility for GS-TOU2 and GS-TOU3 Rates

Both the GS-TOU2 and the GS-TOU3 rates have upper and lower bounds listed in section I. Applicability. The wording allows the possibility of excluding a customer who is intended to qualify for the rate.

Recommendation

Reword the "Applicability" language to remove the possibility of misinterpretation of the way in which the upper and lower bounds impact rate assignment.

For GS-TOU2, delete:

> ***~~This schedule is mandatory for all commercial and industrial (C&I) customers whose monthly demand is 500 to 999 kW for three consecutive months.~~***

Replace with:

"This schedule is mandatory for all commercial and industrial (C&I) customers whose monthly demand is at least 500 kW for three consecutive months and is not greater than 999 kW for three consecutive months."

For GS-TOU3, delete:

~~***This schedule is mandatory for all commercial and industrial (C&I) customers whose monthly demand is 300 to 499 kW for three consecutive months.***~~

Replace with:

"This schedule is mandatory for all commercial and industrial (C&I) customers whose monthly demand is at least 300 kW for three consecutive months and is not greater than 499 kW for three consecutive months."

Unclear Term GS-TOU2 and GS-TOU3 Rates

Both the GS-TOU2 and the GS-TOU3 rates have a summer season charge for maximum kW during the summer super peak. It is labeled "maximum demand charge," which is a generic term that could apply in multiple instances. To make the language more clear and to be consistent with other rate terminology, this charge should be designated "summer super peak demand charge." In addition, this charge is prorated but this is not stated on the rate schedule.

Recommendations

Replace the following from section II. Summer Season – June 1 through September 30:

~~**Maximum Demand Charge** *($/month super peak max kW)*~~

With this language:

Summer Super Peak Demand Charge *($/month super peak max kW)*

Replace the following from section VII.:

~~The System Infrastructure Fixed Charge and Site Infrastructure Charge will be prorated during non-standard billing periods and when the billing period spans more than one season. The following table shows the basis for the proration during these circumstances.~~

With this language:

"The System Infrastructure Fixed Charge, Site Infrastructure Charge and Summer Super Peak Demand Charge will be prorated during nonstandard billing periods and when the billing period spans more than one season. The following table shows the basis for the proration during these circumstances."

Add the *summer super peak demand charge* to the table of prorated charges in section VII. Billing.

Temperature-Dependent Rate Heat Ranges

The Temperature-Dependent Pricing (TDP) Maximum Demand Charge currently has five ranges of temperature each with its own price. The two lowest ranges ("Hot" and

“Moderate/Mild”) have the same price (No Charge). Having two ranges with the same price has caused confusion to our customers.

The “Minimum Demand Charge Day” price is listed as equal to the charge for a “Hot” day, which equates to “No Charge.”

Recommendation

Combine the two ranges into one range named “Mild to Hot.”

Change the language of the Minimum Demand Charge Day as follows:

> On a “Minimum Demand Charge Day” there is no charge for super-peak TDP maximum demand. ~~*charge shall be equal to the TDP maximum demand charge for a “Hot” day (No Charge).*~~

GS-LEG “Closed to new customers” change

The general service legacy (GS-LEG) Rate Schedule states it is closed to new customers. The eligibility for the legacy rate depends on the meter at the premise. As long as a non-communicating meter is installed at the premise, the premise is eligible for the legacy rate.

Recommendation

Revise the language in the GS-LEG Rate Schedule to replace “closed to new customers” to “closed to any new premise” in both the heading and at the end of the “Applicability” section:

> “Rate Schedule GS-LEG (Closed to new ~~customers~~ ***premises*****)**
>
> **I. Applicability**
>
> This rate schedule is closed to new ~~customers~~ ***premises*** effective January 1, 2012.”

4. Residential Rate Schedules

PV Pioneer Green Fee

The Residential PV Pioneer Green Fee program ended in 2003 and no longer exists.

Recommendation

Remove the language on all residential rate schedules where the PV Pioneer Green Fee is mentioned.

Closed Electric Rate Restrictions (RSC)

The closed electric heat rate specifies that new occupants and new installations of electric space heat will be placed on the open electric heat rate. The interpretation of this language has not been consistent. New installations include replacement systems for homes on the closed rate. When a customer on the RSC rate installs a new electric heating system, the RSC rate is no longer applicable.

Recommendation

Add the following language to the last paragraph of section II. of schedule 1-R:

> ***"Customers installing new electric heating that replaces the original qualifying system will be placed on the applicable Open Electric Heat Rate RSEH, RWEH or RTEH."***

Electric Space Heat Terminology

In the residential rate schedules the terms "electric heat" and "electric space heat" are used interchangeably to identify customers who heat their homes with electricity and consequently use more electricity in the winter than customers who heat their homes by another source such as natural gas or propane. The word "space" is a carryover from previous years and is now unnecessary.

Recommendation

Eliminate the use of "electric space heat" and use only "electric heat" when describing this customer group.

Residential Option 2 Time-of-Use Rate

The Residential Option 2 Time-of-Use Rate is missing language that stipulates that the customer cannot return to this rate for at least 12 months after changing to another rate. This provides a situation where customers could switch back and forth between rates so that the lowest rate per month would be available, thus eliminating the seasonal variation in pricing related to the rate structure.

Recommendation

Add the following language to the Option 2 Time-of-Use section that prohibits a return to the rate until 12 months have passed:

> ***"Customers who request a transfer from the Option 2 Time-of-Use period to a Standard Rate may not return to the Option 2 Time-of-Use Rate for a 12-month period."***

Residential System Infrastructure Fixed Charge

SMUD charges the full System Infrastructure Fixed Charge (SIFC) for residential customers, regardless of the number of billing days. The rate schedules state this policy under section "X. Billing Proration of Charges."

In addition, SMUD does not prorate the SIFC during the months affected by the annual rate increases that will take place each January through 2017. In these cases, the SIFC is the one in effect at the end of the billing period. This has created some customer confusion on closing bills that include only a few days and on bills issued less than a full month after a change to the SIFC.

Recommendation

Add the following language to the residential rate schedule that specifies that the residential System Infrastructure Fixed Charge is not subject to proration in billing periods that bridge a rate increase:

"IX. Billing Proration of Charges

…The monthly System Infrastructure Fixed Charge will not be prorated, regardless of the number of days in the billing period, or the spanning of multiple seasons. ***When the billing period spans a change in rates, the System Infrastructure Fixed Charge will be priced at the rate effective at the end of the billing period."***

5. Rules and Regulations Clarity and Consistency

Changes presented here are the result of a review of all Rates, Rules and Regulations. There are no revenue impacts to the following proposed changes to the Rules and Regulations.

Rule and Regulation 1 Definitions

As new rate schedules and rate options are developed and the utility industry continues to expand in the breadth and complexities of its activities many terms need to be added to or clarified on the Rule and Regulation 1 Definitions sheet.

Recommendations

Modify Rule and Regulation 1 to add new definitions and clarify existing definitions. Add definitions for the following, which are in the Rates, Rules and Regulations in Appendix of this Report:

- Contract Capacity
- Demand
- Energy
- Generator Installed Capacity
- Heat Pump
- Installed Capacity
- Interval Data
- Nonagricultural irrigation
- Ratcheted Demand
- Reserved Capacity Charge
- Site Infrastructure Charge
- Subordination
- Super Peak Demand Charge
- System Infrastructure Fixed Charge
- Transformer Installed Capacity

Rule and Regulation 2 Service Conditions

This is a language clarification. Under section I. Description of Service. The secondary, three-phase voltage level includes 4160Δ (Delta), which is no longer offered by SMUD. SMUD currently offers 4160/2400Y service.

Revenue Impact

There is no revenue impact related to this language modification.

Recommendation

Modify the language to replace 4160 Δ (Delta) with 4160/2400Y under secondary, three-phase alternating current service.

<u>Three-Phase</u>

208Y/120
240Δ/120
480Y
480Y/277
~~4160Δ~~ *4160/2400Y*

Rule and Regulation 6 Billing, Payment of Bills, and Credit

Installed Capacity Clarification

The proper application of installed capacity for customer billing purposes has created confusion and customer debate. The Rates Policies and Procedures Manual provides some clarity on the subject, but for the most part, that document serves as internal guidance to SMUD staff and is not otherwise available to the public. Clarification of how to apply this billing component needs to be added in several places that can be easily accessed by our customers, including in Rule and Regulation 6.

Recommendations

Replace the term "installed capacity' with "contract capacity" for billing and in the rate schedules.

Define contract capacity and its application in Rule and Regulation 1.

Inserting the following language in the Metering for Billing and Use of Estimated Consumption section of Rule and Regulation 6, will establish SMUD's prerogative to use contract capacity for billing purposes:

> ***"Use of Contract Capacity for Billing***
>
> ***Where a customer has requested dedicated service, or is utilizing less than 50 percent of equipment sized specifically to meet the customer load, or requires service of 10 MW or greater, SMUD may, at its sole discretion, ensure cost recovery (or marginal cost recovery for equipment utilization of less than 50 percent) of the transmission and distribution facilities capacity by billing the Site Infrastructure Charge based on the applicable contract capacity."***

Update Payment of Bills Section

There are additional payment channels available to customers not listed in this section.

Recommendation

Modify the language to include electronic payment channels and read as follows:

> ***"All customer bills are payable upon presentation to the customer. Payment shall be made at the office of SMUD, at any of the pay stations that SMUD may designate, to any of its duly authorized collectors, by customer initiated electronic means, or by SMUD customer assisted electronic means. Customer bills, with the exception of public entities, that remain unpaid 19 business days from the date of issuance will be regarded as delinquent."***

Rule and Regulation 11 Discontinuance and Restoration of Service

Previously, the restoration of discontinued service required a manual intervention. With improved technology, disconnects and restorations of service can be performed remotely. Rule and Regulation 11 contains language indicating that a higher fee will be charged for same day after-hours reconnection. This language is outdated.

Recommendation

Remove the following from Section III.:

> ***"A higher fee will be charged for same day after-hours reconnections, between the hours of 5 p.m. and 10 p.m."***

Rule and Regulation 21 Interconnection Requirements

Language regarding when it is permissible for a customer to interconnect to the SMUD system is in the Rates Policies and Procedures Manual, an internal document, but is not in Rule and Regulation 21.

Recommendation

Add the following the end of section I. Requirements:

> ***"Interconnection is at SMUD's sole discretion and is prohibited until an approval to interconnect is provided by SMUD."***

Detail of Rate Changes

Residential Tiered Energy Rates

Season and Charge Component	Unit	2013	Proposed 2014	2015	2016	2017
System Infrastructure Fixed Charge	per month	$12.00	$14.00	$16.00	$18.00	$20.00
Summer (All Rates)						
Base Usage	per kWh	$0.0989	$0.1033	$0.1076	$0.1142	$0.1215
Base-Plus	per kWh	$0.1803	$0.1836	$0.1870	$0.1870	$0.1215
Winter, Spring, Fall (Standard Rates)						
Base Usage	per kWh	$0.0911	$0.0955	$0.0998	$0.1036	$0.1060
Base-Plus	per kWh	$0.1738	$0.1771	$0.1805	$0.1805	$0.1060
Winter (Closed Electric Rate)						
Base Usage	per kWh	$0.0757	$0.0828	$0.0912	$0.1007	$0.1060
Base-Plus	per kWh	$0.1443	$0.1542	$0.1578	$0.1578	$0.1060
Spring and Fall (Closed Electric Rate)						
Base Usage	per kWh	$0.0822	$0.0867	$0.0912	$0.1007	$0.1060
Base-Plus	per kWh	$0.1508	$0.1542	$0.1578	$0.1578	$0.1060

Residential Energy Assistance Program Rate

Charge Component	Unit	2013	Proposed 2014	2015	2016	2017
System Infrastructure Fixed Charge	per month	$4.50	$5.50	$6.50	$7.50	$8.50
SIFC discount	per month	-$7.50	-$8.50	-$9.50	-$10.50	-$11.50
Energy Price discount	percent	35%/30%	38.0%	40.0%	44.0%	48.0%
Maximum credit*	per month		$52.00	$49.00	$43.00	$42.00
Maximum credit with wells*	per month		$64.00	$61.00	$55.00	$54.00

** Maximum credit includes discount on both SIFC and energy*

Residential Base Usage Allowances for Tiered Energy Rates (kWh)

Season and Special Allowances			2013	Proposed 2014	2015	2016	2017
Summer (June - September)							
	All Rates	Standard	700	765	835	1,100	All kWh
		With Well	1,000	1,065	1,135	1,400	
Winter (December - March)							
	Non-electric Heat	Standard	620	690	770	1,000	All kWh
		With Well	920	990	1,070	1,300	
	Electric Heat	Standard	1,120	1,280	1,500	3,000	All kWh
		With Well	1,420	1,580	1,800	3,000	
Spring and Fall (April-May, October-November)							
	Non-electric Heat	Standard	620	690	770	1,000	All kWh
		With Well	920	990	1,070	1,300	
	Electric Heat	Standard	800	920	1,100	3,000	All kWh
		With Well	1,100	1,220	1,400	3,000	

Residential Time-of-Use Rates

Option	Season and Charge Componen	Unit	2013	2014	2015	2016	2017
				Proposed			
Option 1 TOU	System Infrastructure Fixed Charge	per month	$12.00	$14.00	$16.00	$18.00	$20.00
	Summer Option 1						
	Summer Off-Peak	per kWh	$0.1124	$0.1130	$0.1139	$0.1112	$0.1085
	Summer On-Peak	per kWh	$0.2414	$0.2420	$0.2429	$0.2402	$0.2375
	Winter Option 1						
	Winter Off-Peak	per kWh	$0.1010	$0.1016	$0.1025	$0.0998	$0.0971
	Winter On-Peak	per kWh	$0.1093	$0.1099	$0.1108	$0.1081	$0.1054
Option 2 TOU	System Infrastructure Fixed Charge	per month	$13.40	$14.00	$16.00	$18.00	$20.00
	Summer Option 2						
	Summer Off-Peak	per kWh	$0.0970	$0.0995	$0.1003	$0.0976	$0.0949
	Summer On-Peak	per kWh	$0.1587	$0.1612	$0.1620	$0.1593	$0.1566
	Summer Super-Peak	per kWh	$0.2397	$0.2422	$0.2430	$0.2403	$0.2376
	Winter Option 2						
	Winter Off-Peak	per kWh	$0.0980	$0.1005	$0.1013	$0.0986	$0.0959
	Winter On-Peak	per kWh	$0.1070	$0.1095	$0.1103	$0.1076	$0.1049
Residential Thermal Storage Energy Credits (RTT)*							
	Winter Off-Peak	per kWh	-$0.0243	-$0.0182	-$0.0122	-$0.0061	$0.0000
	Summer Off-Peak	per kWh	-$0.0271	-$0.0203	-$0.0136	-$0.0068	$0.0000
	Summer On-Peak	per kWh	-$0.0585	-$0.0439	-$0.0293	-$0.0146	$0.0000
Residential Electric Vehicle Energy Credits (RTEV)*							
	Winter Off-Peak	per kWh	-$0.0243	-$0.0243	-$0.0243	-$0.0243	-$0.0243
	Summer Off-Peak	per kWh	-$0.0271	-$0.0271	-$0.0271	-$0.0271	-$0.0271
** Credits apply to applicable time of use periods under Residential Time-of-Use Option 1 rate.*							
Miscellaneous Residential Pricing							
	Three-phase power	per month	$38.95	$39.90	$40.90	$40.90	$40.90
	Standby generation (Secondary level)	per kW	$6.25	$6.25	$6.25	$6.25	$6.25

Agricultural Rates

Season and Charge Component	Unit	2013	2014	2015
Non-Demand ASN Rate (30 kW and below)				
System Infrastructure Fixed Charge	per month	$9.90	$10.15	$10.40
Winter kWh	per kWh	$0.1095	$0.1122	$0.1150
Summer kWh	per kWh	$0.1198	$0.1228	$0.1259
Demand ASD Rate (Over 30 kW)				
System Infrastructure Fixed Charge	per month	$22.90	$23.45	$24.05
Site Infrastructure Charge <= 30 kW	per kW	$0.00	$0.00	$0.00
Site Infrastructure Charge > 30 kW	per kW	$2.25	$2.31	$2.37
Winter First 8,750 kWh	per kWh	$0.1212	$0.1242	$0.1273
Winter Additional kWh	per kWh	$0.0950	$0.0974	$0.0999
Summer First 8,750 kWh	per kWh	$0.1161	$0.1190	$0.1220
Summer Additional kWh	per kWh	$0.0840	$0.0861	$0.0884
Non-Demand Time of Use AON Rate (30 kW and below)				
System Infrastructure Fixed Charge	per month	$13.20	$13.55	$13.90
Winter On-Peak	per kWh	$0.1259	$0.1290	$0.1322
Winter Off-Peak	per kWh	$0.1073	$0.1100	$0.1128
Summer On-Peak	per kWh	$0.1825	$0.1871	$0.1918
Summer Off-Peak	per kWh	$0.0981	$0.1006	$0.1031
Demand Time-of-Use AOD Rate (Over 30 kW)				
System Infrastructure Fixed Charge	per month	$79.65	$81.65	$83.70
Winter Site Infrastructure Charge	per kW	$2.25	$2.31	$2.37
Winter On-Peak	per kWh	$0.1254	$0.1285	$0.1317
Winter Off-Peak	per kWh	$0.1064	$0.1091	$0.1118
Summer Site Infrastructure Charge	per kW	$3.15	$3.23	$3.31
Summer On-Peak	per kWh	$0.1940	$0.1989	$0.2039
Summer Off-Peak	per kWh	$0.1034	$0.1060	$0.1087

Small Commercial Rates (0 – 299 kW)

Season and Charge Component	Unit	2013	2014	2015	2016	2017
Non-Demand < =20 kW (GSN_T)						
System Infrastructure Fixed Charge	per month	$12.00	$14.00	$16.00	$18.00	$20.00
Winter kWh	per kWh	$0.1240	$0.1252	$0.1266	$0.1243	$0.1220
Summer Off-Peak kWh	per kWh	$0.1050	$0.1063	$0.1075	$0.1052	$0.1029
Summer On-Peak kWh	per kWh	$0.2837	$0.2850	$0.2862	$0.2839	$0.2816
Non-Demand, Non-Metered Rate (GFN)						
System Infrastructure Fixed Charge	per month	$12.00	$8.25	$8.45	$8.45	$8.45
Year-round energy	per kWh	$0.1251	$0.1265	$0.1278	$0.1278	$0.1278
Demand Rate 21- 299 kW (GSS_T)						
System Infrastructure Fixed Charge	per month	$22.00	$22.55	$23.10	$23.10	$23.10
Site Infrastructure Charge	per kW	$6.80	$6.97	$7.14	$7.14	$7.14
Winter Energy	per kWh	$0.0916	$0.0939	$0.0962	$0.0962	$0.0962
Summer Off-Peak kWh	per kWh	$0.0810	$0.0830	$0.0852	$0.0852	$0.0852
Summer On-Peak kWh	per kWh	$0.2336	$0.2394	$0.2455	$0.2455	$0.2455

Small Commercial Energy Assistance Rate						
System Infrastructure Fixed Charge		2013	2014	2015	2016	2017
Non-Demand < = 20 kW (GSN_T)	per month	$5.10	$7.10	$9.10	$11.10	$13.10
Demand Rate 21- 299 kW (GSS_T)	per month	$14.10	$14.65	$15.00	$15.00	$15.00

Small Commercial Time-of-Use Rates (300 – 499 kW)

Season and Charge Component	Unit	2013	2014	2015
Service at Secondary Voltage Level (GUS_S)				
System Infrastructure Fixed Charge	per month	$96.70	$99.10	$101.60
Site Infrastructure Charge	per kW	$3.40	$3.49	$3.58
Winter Off-Peak	per kWh	$0.0740	$0.0760	$0.0780
Winter On-Peak	per kWh	$0.0933	$0.0956	$0.0981
Summer Super-Peak Demand Charge	per kW	$6.85	$7.02	$7.20
Summer Off-Peak	per kWh	$0.0975	$0.1000	$0.1026
Summer On-Peak	per kWh	$0.1227	$0.1258	$0.1290
Summer Super-Peak	per kWh	$0.1796	$0.1841	$0.1888
Service at Primary Voltage Level (GUP_S)				
System Infrastructure Fixed Charge	per month	$96.70	$99.10	$101.60
Site Infrastructure Charge	per kW	$3.05	$3.13	$3.21
Winter Off-Peak	per kWh	$0.0700	$0.0718	$0.0737
Winter On-Peak	per kWh	$0.0881	$0.0903	$0.0927
Summer Super-Peak Demand Charge	per kW	$6.25	$6.41	$6.57
Summer Off-Peak	per kWh	$0.0928	$0.0951	$0.0976
Summer On-Peak	per kWh	$0.1182	$0.1212	$0.1243
Summer Super-Peak	per kWh	$0.1709	$0.1752	$0.1797

Medium Commercial Time-of-Use Rates (500–999 kW)

Season and Charge Component	Unit	2013	2014	2015
Service at Secondary Voltage Level (GUS_M)				
System Infrastructure Fixed Charge	per month	$96.70	$99.10	$101.60
Site Infrastructure Charge	per kW	$2.55	$2.61	$2.68
Winter Off-Peak	per kWh	$0.0728	$0.0747	$0.0766
Winter On-Peak	per kWh	$0.0919	$0.0942	$0.0967
Summer Super-Peak Demand Charge	per kW	$6.25	$6.41	$6.57
Summer Off-Peak	per kWh	$0.0924	$0.0948	$0.0972
Summer On-Peak	per kWh	$0.1201	$0.1231	$0.1263
Summer Super-Peak	per kWh	$0.1744	$0.1788	$0.1834
Service at Primary Voltage Level (GUP_M)				
System Infrastructure Fixed Charge	per month	$96.70	$99.10	$101.60
Site Infrastructure Charge	per kW	$2.25	$2.31	$2.37
Winter Off-Peak	per kWh	$0.0689	$0.0707	$0.0725
Winter On-Peak	per kWh	$0.0869	$0.0891	$0.0915
Summer Super-Peak Demand Charge	per kW	$5.75	$5.89	$6.04
Summer Off-Peak	per kWh	$0.0880	$0.0902	$0.0925
Summer On-Peak	per kWh	$0.1158	$0.1187	$0.1218
Summer Super-Peak	per kWh	$0.1660	$0.1702	$0.1746
Service at Transmission Voltage Level (GUT_M)				
System Infrastructure Fixed Charge	per month	$256.10	$262.50	$269.05
Site Infrastructure Charge	per kW	$1.85	$1.90	$1.95
Winter Off-Peak	per kWh	$0.0675	$0.0692	$0.0710
Winter On-Peak	per kWh	$0.0837	$0.0858	$0.0881
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0866	$0.0888	$0.0911
Summer On-Peak	per kWh	$0.1085	$0.1112	$0.1141
Summer Super-Peak	per kWh	$0.1612	$0.1652	$0.1694

Large Commercial Time-of-Use Rate > 1,000 kW

Season and Charge Component	Unit	2013	2014	2015
Service at Secondary Voltage Level (GUS_L)				
System Infrastructure Fixed Charge	per month	$96.70	$99.10	$101.60
Site Infrastructure Charge	per kW	$3.60	$3.69	$3.78
Winter Off-Peak	per kWh	$0.0764	$0.0784	$0.0804
Winter On-Peak	per kWh	$0.0964	$0.0989	$0.1015
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0960	$0.0985	$0.1010
Summer On-Peak	per kWh	$0.1201	$0.1231	$0.1262
Summer Super-Peak	per kWh	$0.1503	$0.1541	$0.1581
Service at Primary Voltage Level (GUP_L)				
System Infrastructure Fixed Charge	per month	$96.70	$99.10	$101.60
Site Infrastructure Charge	per kW	$3.45	$3.54	$3.63
Winter Off-Peak	per kWh	$0.0715	$0.0733	$0.0752
Winter On-Peak	per kWh	$0.0917	$0.0940	$0.0965
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0876	$0.0898	$0.0921
Summer On-Peak	per kWh	$0.1129	$0.1158	$0.1187
Summer Super-Peak	per kWh	$0.1239	$0.1270	$0.1303
Service at Transmission Voltage Level (GUT_L)				
System Infrastructure Fixed Charge	per month	$256.10	$262.50	$269.05
Site Infrastructure Charge	per kW	$2.75	$2.82	$2.89
Winter Off-Peak	per kWh	$0.0699	$0.0717	$0.0736
Winter On-Peak	per kWh	$0.0883	$0.0906	$0.0930
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0863	$0.0885	$0.0908
Summer On-Peak	per kWh	$0.1057	$0.1084	$0.1112
Summer Super-Peak	per kWh	$0.1203	$0.1234	$0.1266

Temperature Dependent Rate

Season and Charge Component	Unit	2013	2014	2015
System Infrastructure Fixed Charge	per month	$256.10	$262.50	$269.05
Site Infrastructure Charge	per kW	$0.50	$0.51	$0.52
Winter Off-Peak	per kWh	$0.0634	$0.0650	$0.0666
Winter On-Peak	per kWh	$0.0883	$0.0906	$0.0930
Summer Super-Peak Demand Charge				
Heat Storm	per kW	$5.14	$5.27	$5.40
Extremely Hot	per kW	$4.85	$4.97	$5.09
Very Hot	per kW	$0.90	$0.92	$0.94
Mild to Hot	No Charge	$0.00	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0799	$0.0819	$0.0839
Summer On-Peak	per kWh	$0.1057	$0.1084	$0.1112
Summer Super-Peak	per kWh	$0.1203	$0.1234	$0.1266

Miscellaneous Commercial Charges

Charge Component	Unit	2013	2014	2015
Power Factor Adjustment	per excess kVar x kWh	$0.0098	$0.0100	$0.0103
Power Factor Waiver	per excess kVar	$0.2588	$0.2653	$0.2719
Standby Charges for Customer Generation				
Secondary Voltage Service		$6.25	$6.25	$6.25
Primary Voltage Service	per kW of contract capacity	$4.95	$4.95	$4.95
Subtransmission Voltage Service		$2.50	$2.50	$2.50

Outdoor Street and Traffic Lighting Rates

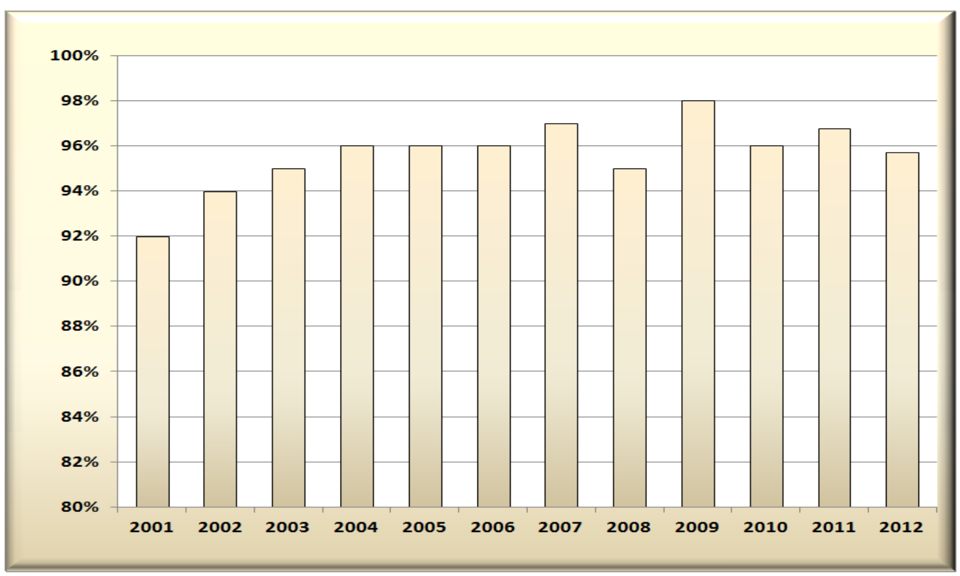
Lighting Schedule		2013	2014	2015
Metered Customer owned and maintained (COM_M)				
System Infrastructure Fixed Charge	per month	$8.25	$8.45	$8.65
Year-round energy charges	per kWh	$0.0711	$0.0729	$0.0747
Unmetered Streetlighting Rates				
Monthly charge (per rated wattage of lamp & ballast)				
NLGT Outdoor Lighting Service		$0.0237	$0.0243	$0.0249
Customer-owned and maintained (COM)		$0.0237	$0.0243	$0.0249
SMUD (District) owned and maintained (DOM)		$0.0237	$0.0243	$0.0249
Customer-owned SMUD (District) maintained (CODM)		$0.0237	$0.0243	$0.0249
TC ILS Traffic Control -- Intersection Lighting Service				
System Infrastructure Fixed Charge	per month	$3.15	$5.00	$5.15
Year-round energy charges	per kWh	$0.0890	$0.0912	$0.0935
TSS Traffic Signal Service SL_TSF (Closed)				
<70 watts (per unit)		$3.50	$3.60	$3.70
> 70 watts (per lamp per watt)		$0.0197	$0.0220	$0.0260
Minimum monthly charge		$3.50	$3.60	$3.70

Information on SMUD Performance

Customer Satisfaction

SMUD continues to earn high marks of satisfaction from its customer-owners. The satisfaction statistics in the following chart provide a summary average of ongoing follow-up surveys SMUD conducts with customers on services we provide including troubleshooting problems, new connects and tree trimming services. The results show customer satisfaction ratings have exceeded 95 percent for the past decade.

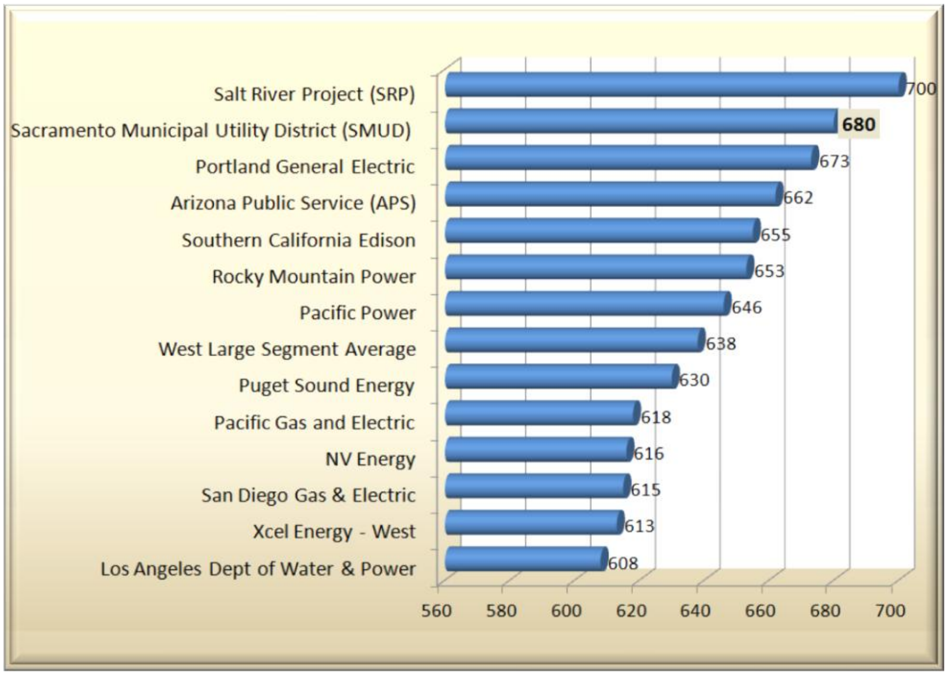
Figure 19 Customer Satisfaction With SMUD Services



Since 2000, SMUD has participated in the annual Electric Utility Residential Customer Satisfaction Study conducted by J.D. Power and Associates. This study ranks electric utilities from across the United States on a Customer Satisfaction Index and on six sub-components to the overall satisfaction index. SMUD has been ranked in the top five in the Western Region on the Customer Satisfaction Index since 2004. The most current

2012 survey represented in the following chart shows SMUD ranked in second place among the major utilities in the west.

Figure 20 J.D. Powers Residential Satisfaction Index



System Average Interruption

SMUD follows industry standards for measuring the overall reliability of the distribution system using the System Average Interruption Frequency Index (SAIFI) and the System Average Interruption Duration Index (SAIDI). In both respects, SMUD system reliability continues to fall within the acceptable ranges set by Board Policy SD-4 on Reliability.

For SAIFI, these goals are:

1. With major event: 0.99 to 1.33 average outages per customer per year.

2. Excluding a major event: 0.85 to 1.14 average outages per customer per year.

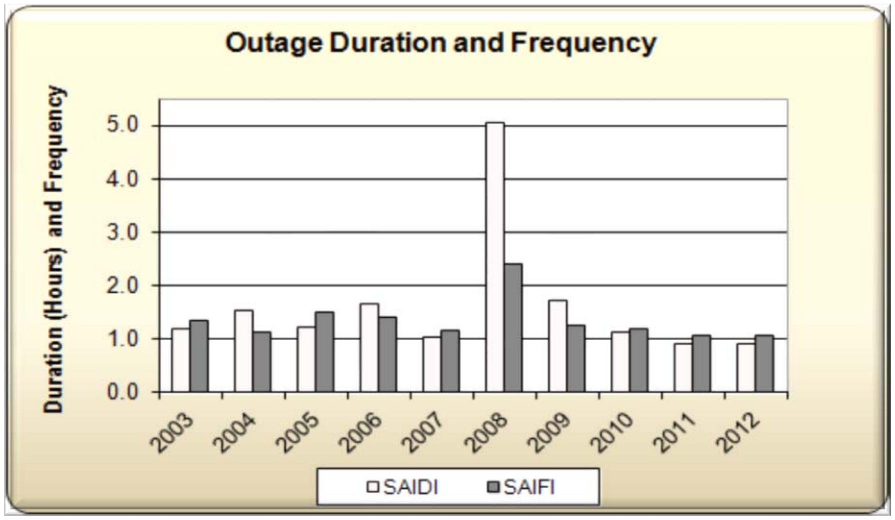
For SAIDI, SD-4 limits the average duration of outages per customer per year:

1. For a major event, 67.6 to 93.3 minutes.

2. Excluding a major event, 49.7 to 68.7 minutes.

In 2011 and 2012, there were no qualifying major events. SMUD's annual system maintenance initiatives, which include the Distribution Line Inspection Program, the Cable Replacement program, and the Vegetation Management Program, are all aimed at ensuring that SMUD meets its reliability goals.

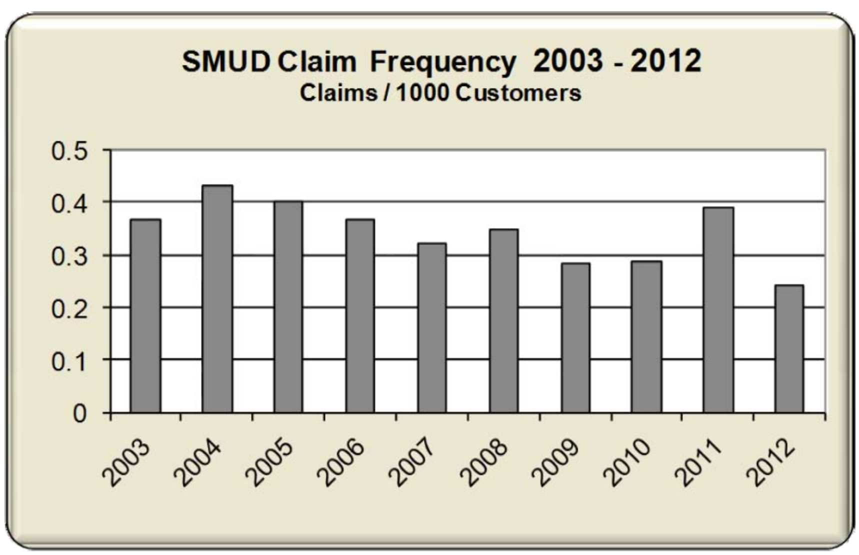
Figure 21 SMUD Outage Frequency and Duration



SMUD Frequency of Claims

As illustrated in Figure 22, the most recent 2012 SMUD statistics show that insurance-related claims have declined significantly; they are now at their lowest point in a decade. Auto liability claims decreased in 2012 because SMUD employees were involved in fewer auto accidents in which they were at fault. This is likely due to Smith System driver training and SMUD's emphasis on improving safety. General liability claim frequency decreased due to improved maintenance of our transmission and distribution systems (likely due to the stringent NERC requirements enforced by NERC audits under which we now operate), which led to fewer claims caused by power outages and surges as well as fewer fires caused by overhead lines (vegetation fires as well as structure fires).

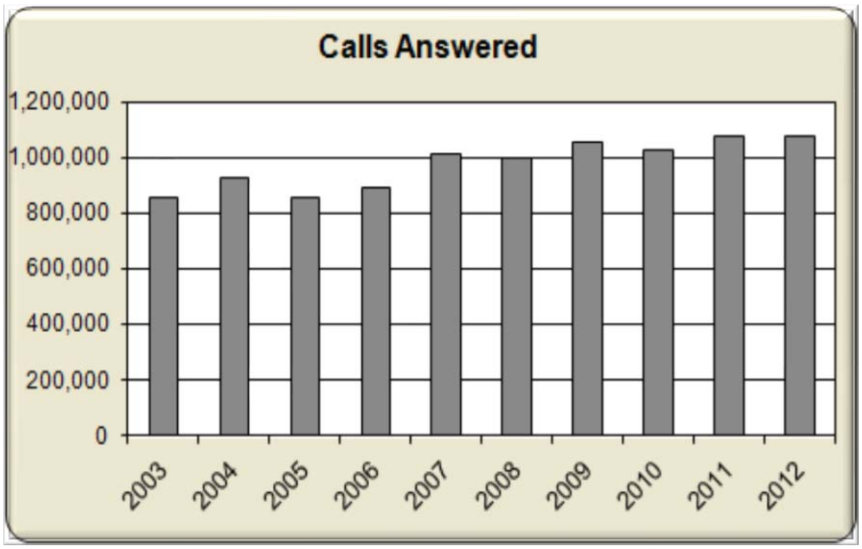
Figure 22 SMUD Frequency of Claims



Customer Calls

SMUD Contact Center continues to manage a high volume of customer contacts each year, which includes more than 1 million calls answered per year along with large numbers of emails, faxes and lobby interactions.

Figure 23 SMUD Customer Calls Answered



Environmental Assessment

1.0 Section 21080(b)(8) of the California Public Resources Code and Section 15273 of the California Environmental Quality Act (CEQA) Guidelines (California Code of Regulations, Title 14, Sections 15000, et seq.) provide that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies which the public agency finds are for the purpose of:

(1) Meeting operating expenses, including employee wage rates and fringe benefits;

(2) Purchasing or leasing supplies, equipment, or materials;

(3) Meeting financial reserve needs and requirements;

(4) Obtaining funds for capital projects necessary to maintain service within existing service areas; or

(5) Obtaining funds that are necessary to maintain such intra-city transfers as are authorized by city charter.

2.0 Section 15061(b) (3) of the CEQA Guidelines provides that where it can be said with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

3.0 The proposed action to increase the residential billing components for all residential energy rates by 2.5 percent effective January 1, 2014, and by 2.5 percent effective January 1, 2015, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

4.0 The proposed action to increase all billing components of all small commercial GSN and GSS energy rates and pilots by **2.5** percent effective January 1, 2014, and by 2.5 percent effective January 1, 2015 is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

5.0 The proposed action to increase all billing components of all small and medium commercial TOU2 and TOU3 energy rates by 2.5 percent effective January 1, 2014, and by 2.5 percent effective January 1, 2015, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

6.0 The proposed action to increase all billing components of all large industrial commercial TOU1, temperature dependent pricing TDP, and economic development energy rates by 2.5 percent effective January 1, 2014, and by 2.5 percent effective January 1, 2015, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

7.0 The proposed action to increase all billing components of all agricultural energy rates by 2.5 percent effective January 1, 2014, and by 2.5 percent effective January 1, 2015, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

8.0 The proposed action to increase all lighting rates and service components by 2.5 percent effective January 1, 2014, and by 2.5 percent effective January 1, 2015, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

9.0 The proposed action to increase the power factor adjustment, power factor waiver, and residential multi-phase service by 2.5 percent effective January 1, 2014, and by 2.5 percent effective January 1, 2015, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

10.0 The proposed action to converge energy tiers annually over the course of four years is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

11.0 The proposed action to revise the pricing for pole attachment fees is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

12.0 The proposed action to decrease the SIFC for GFN customers effective January 1, 2014, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.

13.0 It can be seen with certainty that there is no possibility that the proposed action to modify the SLS, TSS, TC ILS and NLGT Street Lighting, Traffic Lighting and Outdoor Lighting rate schedules may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

14.0 It can be seen with certainty that there is no possibility that the proposed action to modify the residential customer discount for the Energy Assistance Program Rate may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

15.0 It can be seen with certainty that there is no possibility that the proposed action to modify the small commercial customer discount for the Energy Assistance Program Rate, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

16.0 It can be seen with certainty that there is no possibility that the proposed action to establish a tariff for Combined Heat and Power to provide customers with an opportunity to own or host an efficient small-scale generation plant and receive fair compensation for power output, for customer-sited distributed generation, effective January 1, 2014, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

17.0 It can be seen with certainty that there is no possibility that the proposed action to close the current electric vehicle (EV) rate option (RTEV) to new customers, keep the RTEV off-peak credits in place, and create alternative EV pilot pricing effective January 1, 2014, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

18.0 It can be seen with certainty that there is no possibility that the proposed action to phase-out the discount for the Closed Electric Heat rates (RSC, RWC) by 2017, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

19.0 It can be seen with certainty that there is no possibility that the proposed action to phase-out the discount for the Thermal Energy Rate (RTT) by 2017, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

20.0 It can be seen with certainty that there is no possibility that the proposed action to close the pilot Smart Pricing rates may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

21.0 It can be seen with certainty that there is no possibility that the proposed action to amend the eligibility for the small commercial demand rate (GSS_T) may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

22.0 It can be seen with certainty that there is no possibility that the proposed action to restrict street lighting service on streets that are not accessible to the general public may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

23.0 It can be seen with certainty that there is no possibility that the proposed action to the contract term for street lighting service from five to fifteen years may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

24.0 It can be seen with certainty that there is no possibility that the proposed action to close the Customer-Owned, SMUD-maintained street lighting tariff (SL_CODM) to all applicants may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

25.0 It can be seen with certainty that there is no possibility that the proposed action to require that new street lighting, with specified exceptions, must be served on metered rates SL_COM_M or SL_DOM_M, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

26.0 It can be seen with certainty that there is no possibility that the proposed action to increase the SIFC for traffic signal, TC ILS rates and increase the per lamp charge for traffic signal SL_TSF rates may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

27.0 It can be seen with certainty that there is no possibility that the proposed action to update language in the Greenergy Pricing Options of rate schedules to reflect the mix of delivered renewable energy and lower-cost renewable energy credits, may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

28.0 It can be seen with certainty that there is no possibility that the proposed action to permit public entities 33 business days for bill payment before SMUD assesses a late fee penalty may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

29.0 It can be seen with certainty that there is no possibility that the proposed action to expand the list of qualifying renewable generation for net energy metering may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

30.0 It can be seen with certainty that there is no possibility that the proposed action to clarify the qualifying eligibility for the Campus Billing Option may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

31.0 It can be seen with certainty that there is no possibility that the proposed action to modify SMUD Rule and Regulation 6 to provide for technology improvements, clarification of billing practices, and refining acceptable credit may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

32.0 It can be seen with certainty that there is no possibility that the proposed action to clarify language and provide consistent terminology in SMUD’s Rates, Rules and Regulations may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

Energy Conservation Resources for Customers

Energy Efficiency Tips

The links to SMUD's website on the following pages provide information and resources to help you lower your energy use. Some examples of helpful actions you can take include:

Replace incandescent bulbs with compact fluorescent lamps (CFLs) or Light-emitting diode (LED) lamps. Replacing the five bulbs used most frequently in your house with these alternative lamps will save about $60 per year. New technology CFLs and LEDs last 10-30 times longer than incandescent bulbs, use only 20-30 percent of the energy, and produce significantly less heat than incandescent lights.

In the cooling season, set the thermostat at 78 degrees or higher. You'll gain savings of about 5 to 10 percent on the operating cost of an air conditioner for every two degrees you raise the thermostat.

In the heating season, set the thermostat on your heater at 68 degrees when the home is occupied. Set it at 55 degrees at night or when it's unoccupied.

Change the filter on your central heating/cooling system regularly. to keep the system operating at peak efficiency.

Unplug a spare refrigerator or freezer located in the garage. This can save up to $125 per year. If a customer is storing an unused refrigerator or freezer in the garage, they should be sure to remove all doors to prevent accidental suffocation.

Replace refrigerators that are 10 or more years old. *Energy Star* models use10-30% less electricity than the older appliances.

Run washing machines and dishwashers with full loads. This can reduce an average monthly electric bill by as much as $7.

Upgrade or install weather stripping and caulking every five years. This will increase the comfort level in the home and lower your heating and cooling bills by 5-15%.

Unplug appliances, electronics and chargers when not in use. Many of these devices continue to draw power even when you think they are turned off. "Standby power" wastes 15% of typical household energy costs.

SMUD Programs and Web Links

Stay Warm, Stay Cool, Save Energy and Money

We have all the strategies you need to reduce your energy bills yet stay comfortable year-round.

https://www.smud.org/en/residential/save-energy/learn-energy-efficiency/conservation-tips.htm

Calculate Your Energy Savings

See how your home uses energy, find cost-effective ways to save money, and learn how to lower your electric bill. To get started, complete one of our quick energy-profile tools. You'll get information on savings tailored to your home.

https://www.smud.org/en/residential/save-energy/calculate-energy-consumption.htm

Promotions, Rebates and Financing

When you invest in energy efficiency, you help us postpone the need to build more power plants. And that's good for the whole community. We make it easier for you to invest in energy efficiency through our rebates, special promotions and home-improvement loans.

https://www.smud.org/en/residential/save-energy/rebates-incentives-financing/index.htm

Greenergy®

For just $3 (50% option) or $6 (100% option) more a month, SMUD will meet all or half of your electricity needs with power made from renewable resources like wind, water, sun and biomass.

https://www.smud.org/en/residential/environment/greenergy/

Carbon Offset Program

You can lead the way to a cleaner environment and a healthier economy! Activities like driving, traveling, even transporting the food you eat, produce greenhouse gases that contribute to climate change and affect our local air quality.

Lower the impact of your lifestyle and electricity use - Join SMUD's Carbon Offset Program. The cost is just $10 a month added directly to your SMUD bill. Your participation will support projects that reduce or sequester greenhouse gas emissions.

https://www.smud.org/en/residential/environment/carbon-offsets.htm

Free Shade Trees

Not only do trees beautify your home and neighborhood, they can help to dramatically reduce cooling costs during the hot summer months. If your home has an eastern, western or southern exposure that heats up during the summer, you may be eligible to receive free trees from SMUD in partnership with the Sacramento Tree Foundation

https://www.smud.org/en/residential/environment/shade-trees/

Electric Vehicles

Plug-in electric vehicles (PEVs) can curtail our dependence on oil, cut carbon emissions and reduce energy costs to fuel your company vehicles. Find out whether a PEV is right for your business.

https://www.smud.org/en/business/environment/plug-in-electric-vehicles/index.htm

SMUD Energy Experts

SMUD has experts available to answer questions on a number of energy-related subjects. Their areas of expertise and contact information can be found at this web link.

https://www.smud.org/en/residential/education-safety/energy-experts.htm

My Account

Sign up to view "My Account" online and have access to your bill, energy usage and energy analysis tools. You can access and sign up for many programs and services through your account.

https://www.smud.org/en/my-account/index.htm

Strategic Direction

Overview

These Strategic Direction statements have been adopted by resolution of the Board of Directors to set forth the core values and strategic framework for SMUD. Note: Strategic Directions are grouped by Core Values and Key Values, so numbering will not be sequential.

SD-1A Purpose Statement

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

SD-1B Vision Statement

SMUD's vision is to empower our customers with solutions and options that increase energy efficiency, protect the environment, reduce global warming, and lower the cost to serve our region.

In implementing this vision, SMUD will adhere to these principles:

a) Preserve our customers' quality of life by offering flexibility and options;

b) Enable customers to use both active and passive means to achieve these goals;

c) Enable all customers to participate;

d) Collaborate, as appropriate, with partners who share SMUD's goals;

e) Focus on investing in energy efficient infrastructure for both SMUD and customer facilities;

f) Use a comprehensive communication strategy;

g) Leverage SMUD's leadership role to achieve these goals.

Core Values

SD-2 Competitive rates –

Maintaining competitive rates is a core value of SMUD.

Therefore:

a) The Board establishes a rate target of 18 percent below Pacific Gas & Electric Company's published rates on a system average basis. In addition, the Board establishes a rate target of at least 10 percent below PG&E's published rates for

each customer class.

b) In addition, SMUD's rates shall be designed to balance and achieve the following goals: i) Reflect the cost of energy when it is used; ii) Reduce use on peak; iii) Encourage energy efficiency and conservation; iv) Minimize "sticker" shock in the transition from one rate design to another; v) Offer flexibility and options; vi) Be simple and easy to understand; vii) Meet the needs of people with fixed low incomes and severe medical conditions; and viii) Equitably allocate costs across and within customer classes.

c) SMUD will work with owners, renters and landlords, as well as with local jurisdictions, in implementing this policy.

SD-3 Access to credit markets –

Maintaining access to credit is a core value of SMUD. Therefore, SMUD shall comply with all bond indenture requirements and develop budgets in a fiscally sound manner.

Therefore:

a) For SMUD's annual budgets, the Board establishes a minimum target of cash coverage of all debt service payments (fixed charge ratio) of 1.3 times.

b) When making resource decisions, SMUD shall weigh the impacts on long-term revenue requirements, debt, financial risk and flexibility.

c) SMUD's goal is to maintain at least an "A" rating with credit rating agencies.

SD-4 Reliability –

Meeting customer energy requirements is a core value of SMUD.

Therefore:

a) SMUD will assure all customer energy requirements are met. This will be accomplished through the use of: (i) its generation resources and purchase power portfolio 100 percent of the time; and (ii) its transmission assets to assure an overall availability of at least 99.99 percent.

b) SMUD will achieve distribution system reliability by:

Limiting the average frequency of outage per customer per year to:

· With major event: 0.99 – 1.33

· Excluding major event: 0.85 – 1.14

Limiting the average duration of outages per customer per year to:

· With major event: 67.5 – 93.3 minutes

· Excluding major event: 49.7 – 68.7 minutes

c) Ensuring that no individual circuits exceed these targets for more than two consecutive years.

SMUD will maintain the electric system in good repair and make the necessary upgrades to maintain load serving capability and regulatory standards.

SD-5 Customer relations –

Maintaining a high level of customer relations is a core value of SMUD. Therefore, the Board establishes an overall customer satisfaction target of 95 percent with no individual component measured falling below 85 percent.

As part of this policy:

a) SMUD customers shall be treated in a respectful, dignified and civil manner.

b) SMUD shall communicate a procedure for customers who believe they have not received fair treatment from SMUD to be heard.

SD–6 Safety –

Creating a safe environment for workers and customers is a core value of SMUD.

Through continuous safety improvement SMUD will be recognized as a leader in safety. This includes a comprehensive approach to measure safety performance by monitoring the leading, lagging and financial indicators.

Therefore, by 2017 SMUD will:

a) Shift the safety culture through a focus on the leading indicators of: 1) Employee – Supervisor interaction; 2) Timely incident reports; and 3) Timely and quality incident investigations to:

· Achieve an overall leading indicator performance target of 85% with no individual business segment falling below 75%.

b) Continue to improve safety results to:

· Reduce the Days Away Restricted Time (DART) rate by 15% (from the rolling five year average).

c) Maintain positive financial performance by:

· Limiting the average workers' compensation cost per year to no greater than $1.60 per $100 payroll

SD-7 Environmental Protection –

Environmental leadership is a core value of SMUD. The Board is committed to environmental leadership through community engagement, continuous improvement in pollution prevention, carbon reduction, energy efficiency, and conservation.

Therefore:

a) SMUD will conduct its business affairs and operations in a manner that reduces adverse environmental impacts, reduces pollution, and enhances resource conservation and stewardship.

b) SMUD will provide leadership in the reduction of the region's total emissions of greenhouse gases through proactive programs in all SMUD activities and development and support of national, State, and regional climate change policies and initiatives.

c) SMUD will promote the efficient use of energy by its customer-owners.

d) SMUD will proactively engage its customer-owners and other stakeholders in meeting this directive.

SD-8 Employee Relations –

Developing and maintaining a high quality, inclusive workplace that engages and inspires employees to commit to SMUD's purpose, vision and values is a core value of SMUD.

Therefore:

a) SMUD shall engage its workforce in personal and professional development.

b) SMUD shall maintain and communicate written policies that define procedures and expectations for staff and provide for effective handling of grievances.

c) Annually, and consistent with State and Federal law, the Board shall receive a report detailing the demographics of SMUD workforce, the available workforce, and the Sacramento region.

SD-9 Resource Planning –

It is a core value of SMUD to provide its customer-owners with a sustainable power supply through the use of an integrated resource planning process. A sustainable power supply is defined as one that reduces SMUD's net long-term greenhouse gas (GHG) emissions to serve retail customer load to 350,000 tonnes (10% of its 1990 carbon dioxide emission levels) by 2050, while assuring reliability of the system, minimizing environmental impacts on land, habitat, water quality, and air quality, and maintaining a competitive position relative to other California electricity providers. In reducing its net GHG emissions, SMUD will utilize energy efficiency, renewable and net carbon free resources, including large hydroelectric resources and biogas. SMUD may also use offsets to support these goals to the extent their use is cost effective and beneficial to SMUD customers and the region.

To guide SMUD in its resource evaluation and investment, the Board sets the following interim goals:

Year	Net Greenhouse Gas Emissions (metric tonnes)
2012	2,608,000
2020	2,318,000

In keeping with this policy, SMUD shall also achieve the following:

a) SMUD's goal is to achieve Energy Efficiency equal to 15% of retail load by 2023.

To do this, SMUD will acquire as much cost effective and reliable energy efficiency as feasible through programs that optimize value across all customers. SMUD shall support additional energy efficiency acquisition by targeting one percent (1%) of retail revenues for above market costs associated with education, market transformation, and programs for hard to reach or higher cost customer segments. The market value of energy efficiency will include environmental attributes, local capacity value and other customer costs reduced by an efficiency measure.

Year	Gigawatt Hours	Megawatts
2011	166	26.5
2012	169	27.1
2013	171	27.3
2014	175	28
2015	179	28.7

2016	183	29.2
2017	185	29.6
2018	187	30
2019	190	30.5
2020	194	31
Total	1,798	287.7

b) Provide dependable renewable resources to meet 20% of SMUD's load by 2010, and 33% of its load by 2020, excluding additional renewable energy acquired for certain customer programs. In acquiring renewable resources, SMUD shall emphasize local and regional environmental benefits.

c) Promote cost effective, clean distributed generation through SMUD programs.

SD-11 Local control –

Support for public power and preservation of local decision-making and control are core values of SMUD. Community-owned utilities are primarily accountable to customers-owners, not stockholders. Community citizens have a direct voice in utility decisions.

Preservation of local decision-making and control are vital to ensure public power systems can provide solutions that best meet the needs of their customers.

SD-12 Ethics –

Maintaining the public trust and confidence in the integrity and ethical conduct of the Board and SMUD employees is a core value of SMUD. Therefore, to ensure the public interest is paramount in all official conduct, the Board shall adopt and update, as necessary: a Conflict of Interest Code as required by State law. SMUD shall also maintain and enforce a code of ethics applicable to all employees.

Among other things the code of ethics shall:

a) Require high ethical standards in all aspects of official conduct;

b) Establish clear guidelines for ethical standards and conduct by setting forth those acts that may be incompatible with the best interests of SMUD and the public;

c) Require disclosure and reporting of potential conflicts of interest; and

d) Provide a process for reporting and investigating suspected violations of the code of ethics.

SD-16 Information Management and Security Policy –

Proper management of SMUD information is a core value of SMUD. Consistent information management practices are critical to reduce the risk of legal liability, regulatory noncompliance, natural disaster recovery, criminal activity, theft of critical resources, and to assure customer satisfaction. SMUD shall take reasonable measures to ensure:

a) Information Security: The protection of SMUD information (confidential, proprietary, and intellectual property) and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction;

b) Customer Privacy: Maintaining the confidential nature of customer information that is proprietary or relates to customer privacy interests, including social security numbers, addresses, phone numbers, birth dates, and specific billing, credit and energy usage information; provided however, customer privacy shall not extend to aggregate information regarding the usage, load shape or other general characteristics of a group or rate classification. Release of customer information is permissible as reasonably necessary to meet SMUD's business interests (e.g., collection of unpaid bills or debts, reporting to credit agencies, exchange of customer information with other utilities for collection purposes or determinations of creditworthiness, or cooperation with law enforcement).

c) Records Management: The efficient and systematic control of the creation, capture, identification, receipt, maintenance, use, disposition, and destruction of SMUD records, in accordance with legal requirements and Board policies.

SD-17 Enterprise Risk Management

SMUD will implement and maintain an integrated enterprise risk management process that identifies, assesses, prudently manages and mitigates a variety of risks facing SMUD, including financial risk, supply risk, operational risk, physical security risk, legal risk, legislative and regulatory risk, and reputational risk.

SD-18 Emerging Technologies

New technologies enable multi-directional customer business relationships. These technologies include, but are not limited to, distributed generation, storage, electricity used as transportation fuel, micro grids and future smart grid applications. SMUD shall integrate emerging technologies into SMUD's customer offerings in a way that balances risk and opportunity in order to benefit our community.

Key Values

SD-10 Research and development –

To assure SMUD's long-term competitiveness and its ability to deliver innovative products and services, SMUD shall invest in research and development projects that support its core and key values, based on an analysis of the projects' relative risks and their potential benefits to SMUD customers.

SD-13 Economic Development –

Promoting local and regional economic benefits is a key value of SMUD. Therefore, SMUD shall 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. SMUD shall emphasize assistance to businesses that promote energy efficiency, advanced renewable technologies, and environmental protection.

Therefore, SMUD shall:

a) Promote the development and growth of small and emerging businesses.

b) Partner with local and regional organizations in collaborative efforts.

c) Develop enhanced rates and new service incentives.

d) Support the Sacramento Region Blueprint Transportation and Land Use Study planning principles and preferred growth scenario.

SD-14 System Enhancement –

As a community-owned utility, SMUD recognizes that the relocation or underground placement of primary voltage power lines may be desirable to local jurisdictions to improve aesthetics, economic vitality, safety and disabled access. Therefore, it is a key value of SMUD to make selected distribution system enhancements, such as relocation or underground placement of primary power lines below 69 kV.

a) SMUD will, at its expense and where technically feasible, relocate or underground existing overhead distribution facilities provided the governing body of the city or county in which the electric facilities are and will be located has: i) Identified, after consultation with SMUD, a specific system enhancement project; ii) Determined the project is in the public interest; iii) Ensured all existing overhead communication facilities related to the project will also be relocated or placed underground; iv) Obtained and provided SMUD with all easements necessary for the project.

b) After achievement of core financial targets, SMUD will annually commit up to one-half of one percent of its annual gross electric sales revenue to system enhancements. The proposed projects will be subject to SMUD's annual budget approval process, and uncommitted funds from any given year will not be carried over to future years. Funding will be assigned to projects brought forward by local cities or counties based on applying the following criteria (not in order of preference): i) Project scale and/or cost when measured against available SMUD resources. ii) Requesting entity has developed full scope, obtained all necessary easements, and development plan for customer service conversion from overhead to underground, as required. iii) Extent to which the costs are borne by others.

SD-15 Outreach and Communication –

Providing broad outreach and communication to SMUD's customers and the community is a key value of SMUD.

Specifically:

a) SMUD shall provide its customers the information, education and tools they need to best manage their energy use according to their needs.

b) SMUD will use an integrated and consistent communication strategy that recognizes the unique customer segments that SMUD serves.

c) SMUD's communication and community outreach activities shall reflect the diversity of SMUD. SMUD shall use a broad mix of communication channels to reach all customer segments. This communication shall be designed to ensure that all groups are aware of SMUD's major decisions and programs.

Compliance

Introduction

California voters approved Proposition 26 in November 2010, and that measure provides that every "levy, charge, or exaction of any kind imposed by a local government" is treated as a tax subject to voter approval, with exceptions discussed below. Cal. Const., art. XIII C, § 1, subd. (e). Proposition 26 therefore applies only to charges that are "imposed" by local government. SMUD rates are not "imposed" on customers for purposes of Proposition 26, because that language requires some exercise of government force or authority, which is not involved when a public agency such as SMUD provides services to customers in a competitive market. SMUD customers pay only for the voluntary use of service, and they have meaningful alternatives to that service, such as solar, hydro, fuel cell, wind and geothermal power.

Proposition 26 Does Not Apply to SMUD Rates

Although Proposition 26 therefore does not govern SMUD electric rates, the rate structure developed for this General Manager's Report and Recommendations on Rates and Services ("Report") complies with Proposition 26, which includes seven exceptions that treat certain charges imposed by local government agencies as fees rather than taxes, five of which are relevant to SMUD charges.

Cost-Justified Fees for Benefits and Services

First, charges for benefits conferred upon the payor, or for specific government services provided directly to the payor, are excepted under Cal. Const., art. XIII C, subdivisions (e)(1) and (e)(2), respectively, provided that the charge does not exceed the reasonable cost of providing that benefit or service. With the exception of the Energy Assistance Program Rate ("EAPR") and Medical Equipment Discount Program ("MED") discussed below, to date these rates have been based upon cost of service principles, under which revenue requirements are determined and functionalized costs are allocated equitably among customer classes, which are drawn to reflect common service requirements and service costs. Like the rate structure in place to date, the proposed rate increases are also based upon cost of service principles, because the primary cost-drivers of this rate increase are increased costs for renewable energy and the need to maintain cash flow ratios to ensure favorable access to credit markets. These cost-drivers affect SMUD's cost to serve all customer classes uniformly. Accordingly, the proposed rate increases apply uniformly to each customer class.

The cost-of-service analysis which demonstrates the cost-justification for the rates now in place is the SMUD Rate Costing Study (March 31, 2009) and is incorporated herein by this reference. Although those rates were increased in three steps on September 1, 2009, March 1, 2010, and January 1, 2011 and are proposed to increase again by this

Report, the increases were made on an across-the-board basis to reflect cost increases of proportionate impact on all customer classes and did not require reexamination of the allocation of costs among classes or of class definitions.

While the EAPR and MED rates do not reflect cost of service principles, these discounts for low-income customers and customers requiring power for certain medical technology reflect policies that were in place prior to November 3, 2010, the effective date of Proposition 26.[6]

The current EAPR program was adopted on March 17, 2005 by Board Resolution No. 05-03-08; and the current MED program was adopted on June 16, 2009 by Board Resolution No. 09-06-05. These programs are in the nature of public goods charges and are grandfathered under Proposition 26, which does not vitiate local government policies that predate the measure. The EAPR and MED discount, as it existed in November 2010, and as it is proposed to be maintained in the context of ongoing changes in residential service rates (such as tier convergence) therefore complies with Proposition 26.

This Report recommends, and the form of resolution by which the Board can adopt the increases proposed here confirms, that SMUD will maintain its EAPR program without increasing the extent to which the low-income discount is funded by the proceeds of service charges. Doing so requires some additional discussion, however, because the cost of the EAPR program varies from year to year depending on the state of the economy, the extent to which eligible customers choose to participate in the program, and the volume of power consumed by program participants which, in turn, can vary with weather. The current slow recovery from “the Great Recession” has led to increased participation in the EAPR program and, over the last couple of years, usage per EAPR customer has increased compared to non-EAPR customers, therefore, the total cost of the program is rising even though the means to calculate it have not changed in substance.

In addition, SMUD is in the midst of a multi-year transformation of its residential rate structure known internally as “tier convergence” that is collapsing the tiers of power consumption for which differential rates are imposed. The historic rate structure and current structures charge more for higher levels of power consumed to give customers an incentive to conserve. The collapsing of these tiers is intended to move SMUD toward a single rate that will allow Time of Use (TOU) billing using newly installed “Smart Meters” that will do a better job of sending a conservation pricing signal by encouraging conservation when it is most needed — as during hot summer afternoons when SMUD is required to operate relatively more costly peaker plants to serve peak demand. Power used during this time costs more to provide and therefore it is productive to encourage conservation during this time, rather than to using a price signal to encourage conservation at all times, even during low-use times when SMUD, its cost of operation, and the environment benefit little from additional conservation (like the hours before dawn).

To ensure that the EAPR program continues to be grandfathered under Proposition 26 as SMUD moves through the tier-convergence process over the next four years, SMUD has calculated the EAPR budget in the table below each year for 2014 through 2017, assuming application to the projected number of customers and their projected electricity consumption, as if the discount and tier structure in place in November 2010 (when Proposition 26 took effect) still applied. SMUD then compared this baseline budget to the EAPR budget developed under the proposed tier convergence guidelines, utilizing the same projected number of customers and projected electricity consumption. This

[6] See General Manager’s Report and Recommendations on Rates and Services dated March 31, 2009, which discusses both of these programs.

comparison establishes that the proposed tier convergence "discount and cap" guidelines result in an EAPR budget that is lower than the baseline EAPR budget. Thus, while the total dollar cost of the EAPR discount will vary as customers join or leave the program, as customers in the program use more or less energy (e.g., due to weather, the number of people living in home, changes in the use of higher consumption electronic devices, etc.), the EAPR budget will not grow as a result of tier convergence, and the amount provided in the form of EAPR discounts derived from rates paid by non-EAPR customers will be no larger than would have been the case if the discount and tier structure in place on the effective date of Proposition 26 had remained unchanged.

	2014	2015	2016	2017
EAPR Participants (average)	127,361	133,403	138,313	142,774
EAPR Electricity Sales (MWh)	1,047,952	1,098,209	1,139,148	1,176,418
Pre-Prop 26 EAPR Program Budget ($M)	$ 55.56	$ 61.70	$ 66.34	$ 70.87
Proposed Tier Convergence EAPR Program Budget ($M)	$ 49.95	$ 55.30	$ 61.14	$ 67.81

By contrast, the MED discount is much simpler to grandfather because the discount is up to $15.00 per billing period that cannot exceed the monetary value of energy consumed. Accordingly this program will be maintained without change in the form it existed in November 2010.

Non-Cost Justified Fees for Use of SMUD Property; Fines and Penalties

In addition to the exceptions applicable to charges for benefits and services, Proposition 26 also provides exceptions for the following categories of charges, which are not treated as taxes subject to voter approval: (1) charges for the use of government property and (2) fines and penalties. Cal. Const., art XIII C, § 1, subdivisions (e)(4) and (e)(5). Unlike charges for benefits and services, which cannot exceed the reasonable cost of providing those benefits and services, Proposition 26 does not limit such charges to the cost of service. Therefore, to the extent that SMUD's charges are for the use of SMUD property (such as wholesale rates) or fines and penalties (such as late-payment charges), those charges would comply with Proposition 26 if it applied (which, as explained above, it does not) even without a showing that such charges are limited to SMUD's costs.

Development Impact Fees

The final exception of Proposition 26 relevant to this discussion is that provided by article XIII C, section 1, subdivision (e)(6) for fees imposed as a condition of property development. Thus, to the extent SMUD's charges are imposed in the development context, they would comply with Proposition 26 if it applied. Again, as noted above, SMUD's charges are not subject to Proposition 26 because they are meaningfully voluntary and therefore not "imposed."

Glossary of Terms

AB 1613

California Assembly Bill 1613 – Waste Heat and Carbon Emissions Reduction Act.

AB 2021

California Assembly Bill 2021 – Energy Efficiency Goals for Municipal Utilities.

AB 32

California Assembly Bill 32 – California Global Warming Solutions Act of 2006.

AMI

Advanced Metering Infrastructure refers to systems that measure, collect and analyze energy usage through various communication media on request or on a predefined schedule. This infrastructure includes hardware, software, communications, customer associated systems and meter data management (MDM) software.

Carbon Footprint

A measure of the impact human activities have on the environment in terms of the amount of greenhouse gases produced, measured in units of carbon dioxide.

Carbon Offset

Carbon offsets mitigate carbon emissions through the use of alternative projects such as solar or wind energy or re-forestation that replaces fossil fuel usage.

Combined Heat and Power (CHP)

A Combined Heat and Power unit is an electric generator that captures its waste heat for secondary purposes, such as creating hot water or industrial steam. Under state law, SMUD is required to purchase any excess generation from CHP units at a "just and reasonable rate."

Claim

Claims are requests, to or from SMUD, for moneys to resolve issues regarding damaged property or other obligations.

Conservation Signal

Pricing of power to reflect the underlying cost of service and encourage energy conservation. This is typically done using higher summer pricing and time-of-use rates.

Core values

SMUD's core values are part of the Board's Strategic Direction and are a component of all solutions for meeting our customers' electrical needs. SMUD core values include competitive rates, reliability, access to credit markets service reliability, customer relations, safety, environmental protection, employee relations, local control and ethics.

Credit Markets

A financial market where participants buy and sell debt securities, usually in the form of bonds.

Distributed Generation

Distributed generation, also called on-site generation, decentralized generation, decentralized energy or distributed energy, generates electricity from many small energy sources. Distributed energy resource (DER) systems are small-scale power generation technologies (typically in the range of 3 to 10,000 kW) used to provide an alternative to or an enhancement of the traditional electric power system.

Plug-in Electric Vehicle

A passenger vehicle powered by rechargeable battery packs that can be recharged from an external source of electricity. Plug-in hybrid electric vehicles are powered by rechargeable battery packs and also have an internal combustion engine.

Energy Star

An international standard for energy efficient consumer products. Devices that carry the *Energy Star* service mark use less energy than required by federal standards.

Feed-in Tariff

A Feed-in Tariff (FIT) is a standardized price offer to purchase renewable electricity from sources such as solar photovoltaic, wind power, biomass and geothermal power. Under California law, most utilities must offer a FIT at prices set to encourage development of small renewable generation.

Fixed Charge Coverage or Fixed Charge Ratio

The number of times the interest and principle on debt can be covered by cash-based net revenues.

GHG – Greenhouse Gases

GHG are gases, such as carbon dioxide, methane and nitrous oxides that trap heat in the atmosphere. Because of fossil fuel use and other human activity, greenhouse gases have been concentrating at higher levels, leading to general climate warming. SMUD produces greenhouse gases primarily through its operation of natural gas-fired power plants. SMUD is committed to reducing its GHG through the use of renewable power and other means. Its long range plan will reduce its greenhouse gas emissions to only 10 percent of its 1990 level by 2050.

J.D Power and Associates

J.D. Power and Associates is a global marketing information services company providing forecasting, performance improvement, social media and customer satisfaction insights and solutions.

Key Values

Key Values, part of the Board's Strategic Direction, define SMUD's course of action regarding resource planning, research and development, economic development and system enhancement.

LED

The Light-Emitting Diode is a source of illumination used increasingly in lighting fixtures where it produces more light output per watt than most other conventional lighting sources such as incandescent, fluorescent and high-intensity discharge lamps.

Load Factor

Load factor is the relationship between actual energy consumption in kilowatt-hours (kWh) and the highest possible energy use if the kilowatts (kW) of load operated at full capacity during the whole period. The following formula shows this relationship:

$$\frac{\text{Total kWh}}{\text{Peak kW x Hours in the Period}}$$

The load factor measures the degree of electric utilization of the available facilities. Typical load factors for residential and small commercial customers range between 45 percent and 55 percent. High load factor customers will exceed 70 percent, while low load factor customers may be in the low 20's.

Net Energy Metering

The amount of energy remaining after the deduction of any energy generation from metered energy consumption.

Normal Weather Year

This refers to a year of daily weather-related indicators, such as low and high temperatures, based on long-term averages and created for modeling and analysis. SMUD uses a 30-year normal weather year to model system loads and temperature-dependent impacts, such as air conditioning.

Peak periods

Peak periods refer to designated hours when SMUD experiences its highest seasonal loads. In its time-of-use rates, SMUD charges higher prices for peak period usage. For many time-of-use rates, SMUD uses the term “On-Peak” for both the summer and winter weekday hours when its highest system loads are most likely to occur. In some tariffs, SMUD designates a “Super-Peak,” for the period of highest summer loads, with “On-Peak” referring to hours immediately before and after. SMUD refers to periods falling outside the peak periods as “Off Peak.”

Pilot Rate

Rate design pilots are experimental rates offered for a limited term to test a sample of customers for the purpose of gathering information on the impact and acceptance of future rate implementation.

Pole Attachment

A device placed on a SMUD electrical pole at the request of a non-SMUD entity such as a cell phone company or cable television company.

Portal

A portal is an Internet website designed to provide visitors with access to the host’s information and services.

Power Factor

Power factor is a measure of the relationship between kilowatt and kilovar requirements for the metered loads at a customer site. For billing purposes, power factor is defined as the ratio of active power (kW) to apparent power (kVA).

Prop 26

California Proposition 26 – Supermajority Vote to Pass New Taxes and Fees Act. Proposition 26 requires a two-thirds supermajority vote in the California State Legislature to pass many fees, levies, charges and tax revenue allocations that previously could be enacted by a simple majority.

PV

Photovoltaic is a generation technology that uses semiconductors to convert solar radiation into electricity.

Radio-frequency Meters

Electric meters that transmit information wirelessly to the electric utility. The communication transmittal is similar to that used by cell phones, police radios and FM radio stations.

Rate Stabilization Fund

SMUD maintains the Rate Stabilization Fund as a means of managing cash flow and deferring the need for rate increases when costs temporarily exceed revenue through rates. At the direction of the Board, amounts may be either transferred into or out of this fund on an event-driven basis.

Regulatory Costs

Costs associated with compliance to government, both state and federal regulation. For example, costs from mandated requests from the California Public Utility Commission (CPUC), California Energy Commission (CEC) and Federal Energy Regulatory Commission (FERC) as well as other governmental entities.

Reliability Targets

These are targets for SAIDI and SAIFI statistics established by the Board of Director's Reliability Policy, Strategic Directive 4. (SD-4)

Renewable or Renewable Energy

Renewable energy is energy generated from natural resources—such as sunlight, wind, rain, tides and geothermal heat—which are renewable (naturally replenished).

Renewable Portfolio Standard (RPS)

RPS is a regulatory policy that requires the increased production of renewable energy sources such as wind, solar, biomass, and geothermal energies. In California, the state RPS mandates that electric utilities meet 33 percent of their energy requirements with renewable sources by 2020.

SAIDI frequency statistics

System Average Interruption Duration Index (SAIDI) is an index of electric system reliability that measures the average length of time for electric service outages per customer on an annual basis. SMUD Board Policy SD-4 on Reliability sets the SAIDI, excluding major events, at between 49.7 to 68.7 minutes.

SAIFI frequency statistics

System Average Interruption Frequency Index (SAIFI) is an index of electric system reliability that measures the frequency of electric service outages per customer on an annual basis. SMUD Board Policy SD-4 on Reliability sets the SAIFI, excluding major events, at between .85 to 1.14 outages per customer per year.

SB 1

California State Senate Bill 1(SB 1) provides more than $3.35 billion in long-term funding to support the installation of 3,000 megawatts of solar generation systems on residential, commercial and government buildings throughout the state. SB-1 also requires utility investment in customer-sited solar installations. In 2008, SMUD implemented a per kilowatt-hour solar surcharge to fund its investment requirements under the legislation.

SB 489

California State Senate Bill 489 – Renewable Energy Equity Act; expands energy resources that qualify for Net Energy Metering (NEM).

Secondary Service

For SMUD, secondary service is defined as service taken at 4,160 kV, or lower.

Smart Grid

An electrical grid that uses information and communications technology to gather and act on information, such as information about the behaviors of suppliers and consumers, in an automated fashion to improve the efficiency, reliability, economics, and sustainability of the production and distribution of electricity. “Smart grid” generally refers to a class of technology using computer-based remote control and automation.

System Average Rate

The total kilowatt hours sold divided by the total revenue.

Tariff

A schedule of rates or charges of a business or a public utility.

Thermal Energy Storage

Thermal Energy Storage (TES) tanks store chilled water for building air conditioning service. The water is cooled with mechanical chillers using lower cost "off-peak" or "rate-shifted" energy.

Tier

A block of kWh sold at a specified price. The blocks are stacked (tiered) and typically the price is higher as the tiers go up. The result is as the usage increases, the price per kWh increases. Currently, SMUD’s default residential rates feature tiered pricing.

Tier Convergence

Residential rate modification that extends the Base Usage quantity and lessens the gap between the Base Usage price and the Base-Plus Usage price over the four-year period from 2014 through 2017.

Time-of-Use Rate

A rate that charges different prices based on the time of day electricity is used.

Upper American River Project (UARP)

The Upper American River Project is the series of 11 reservoirs and eight powerhouses that supply nearly 15 percent of the electricity needs of SMUD customers.

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Audited Financial Statements

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SACRAMENTO MUNICIPAL UTILITY DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sacramento Municipal Utility District
Sacramento, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sacramento Municipal Utility District and its blended component units, which comprise the Consolidated Statements of Net Position as of December 31, 2012 and 2011, and the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Sacramento Municipal Utility District's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sacramento Municipal Utility District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
Sacramento Municipal Utility District

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Municipal Utility District and its blended component units at December 31, 2012 and 2011, and the changes in their financial position and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Note 2, Sacramento Municipal Utility District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of Sacramento Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sacramento Municipal Utility District's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 22, 2013

Sacramento Municipal Utility District
Management's Discussion and Analysis
(Unaudited)

This management discussion and analysis provides a summary of the financial performance of the Sacramento Municipal Utility District (SMUD) and its component units for the years ending December 31, 2012 and 2011. Please read it in conjunction with the consolidated financial statements and notes, which begin on page 20.

Background

Under provisions of California's Municipal Utility District Act, the citizens of Sacramento voted in 1923 to form their own electric utility – SMUD. The community-owned utility began operations on December 31, 1946.

Governed by an elected board of directors (Board), SMUD has the rights and powers to fix rates and charges for commodities and services it furnishes, incur indebtedness, and issue bonds or other obligations. SMUD is responsible for the acquisition, generation, transmission and distribution of electric power to its service area – most of Sacramento County and small, adjoining portions of Placer and Yolo counties.

Setting rates

The Board has independent authority to set SMUD's rates and charges. Changes in rates require a public hearing and formal action by the Board.

In June 2009, the Board approved the following average system rate increases:

- 5.5 percent, starting September 1, 2009,
- 5.5 percent, starting March 1, 2010, and
- 2.25 percent, starting January 1, 2011

In August 2011, the Board approved a revenue-neutral rate restructuring that would

- encourage energy efficiency,
- promote the development of renewable energy resources, and
- equitably allocate costs across and within customer classes

Effective January 2012, various components of the rate were adjusted to achieve the Board's objectives. The impact of the changes covers the years 2012 through 2017.

In April 2012, $6.4 million was transferred from the Hydro Rate Stabilization Fund (HRSF) to revenue as a result of lower precipitation. In April 2011, $40.4 million was transferred from revenue to the HRSF as a result of higher hydro generation due to high precipitation.

In December 2012 and 2011, $0.6 million and $10.1 million, respectively, was transferred to the Rate Stabilization Fund (RSF) due to increased energy deliveries by the Western Area Power Administration (Western).

Financial Reporting

SMUD maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB) and – where not in conflict with the GASB – by accounting principles set by the Financial Accounting Standards Board (FASB).

SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission, except as it relates to accounting for contributions of utility property in aid of construction.

In accordance with GASB Statement No. 63, ***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***, the Statements of Net Position present SMUD's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for the years ended December 31, 2012 and 2011.

GASB Concept Statement No. 4, ***Elements of Financial Statements***, defines deferred outflows of resources as the consumption of net assets in one period that are applicable to future periods. Deferred inflows of resources are defined as the acquisition of net assets that are applicable to future reporting periods. The Statements of Net Position report net position as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The components of net position are classified as investments in capital assets, net of related debt, restricted, and unrestricted. Unrestricted indicates the funds are available for operations. As of December 31, 2012 and 2011, there was $119.7 million and $215.7 million, respectively, of deferred outflows of resources for hedging derivatives and no deferred inflows of resources reported in the Statements of Net Position.

In accordance with GASB No. 62, "***Regulated Operations***" the Board has taken regulatory actions for ratemaking that result in the deferral of expense or revenue recognition.

As of December 31, 2012, SMUD had total regulatory costs for future recovery of $211.1 million, a net decrease of $12.2 million from 2011. The decrease is due largely to amortization of deferral of pollution remediation costs of $6.0 million, a decrease in the valuation of derivative financial instruments of $7.6 million, offset by an increase in deferred costs for Rancho Seco decommissioning of $1.3 million.

As of December 31, 2012, SMUD also had Regulatory Credits of $399.6 million, a net increase of $8.5 million from 2011. The increase is primarily due to the $15.8 million deferral of grant revenues for capital assets, $4.6 million deferral of auction proceeds related to Assembly Bill 32 Global Warming Solutions Act, $3.5 million increase in CIAC deferral, and a $0.6 million transfer to the RSF due to increased energy deliveries by Western. These increases were offset by a $6.4 million transfer from the HRSF due to lower precipitation, $6.4 million for settlements of precipitation agreements, and a $3.2 million reduction in the Senate Bill 1 deferred revenue for investments in solar.

The regulatory costs and regulatory credits will be recognized in the *Consolidated Statements of Revenues, Expenses and Changes in Net Position* in future periods as determined by the Board for ratemaking purposes.

Contents of this report

This annual financial report reflects SMUD activities that are funded primarily through the sale of energy, transmission, and distribution services to its customer-owners and is divided into the following sections.

- Management discussion and analysis.
- **The consolidated financial statements**, which offer both short-term and long-term information on SMUD's financial status.
    - The **Consolidated Statements of Net Position** are prepared in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and includes all of SMUD's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position using the accrual method of accounting. The Consolidated Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.
    - The **Consolidated Statements of Revenues, Expenses and Changes in Net Position** report all of SMUD's revenues and expenses for the periods shown.
    - The **Consolidated Statements of Cash Flows** report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing. They also report other cash uses such as payments for bond principal and capital additions and improvements.
- Notes to the consolidated financial statements.

Financial Highlights

Condensed Consolidated Net Position

Assets & Deferred Outflows of Resources	2012	December 31, 2011	2010
		(millions of dollars)	
Electric Utility Plant – net	$ 3,340	$ 3,248	$ 3,004
Restricted and Designated Assets	233	241	205
Current Assets	909	694	884
Noncurrent Assets and Deferred Charges	861	754	783
Deferred Outflows of Resources	120	216	218
	$ 5,463	$ 5,153	$ 5,094
Liabilities and Net Position			
Long-Term Debt - net	$ 3,030	$ 3,013	$ 3,156
Current Liabilities and Deferred Credits	671	737	718
Noncurrent Liabilities and Deferred Credits	985	786	673
Net Position:			
Net Investment in Capital Assets	436	414	97
Restricted	122	110	101
Unrestricted	219	93	349
	$ 5,463	$ 5,153	$ 5,094

Assets & Deferred Outflows of Resources

Utility Plant – net

2012 compared to 2011

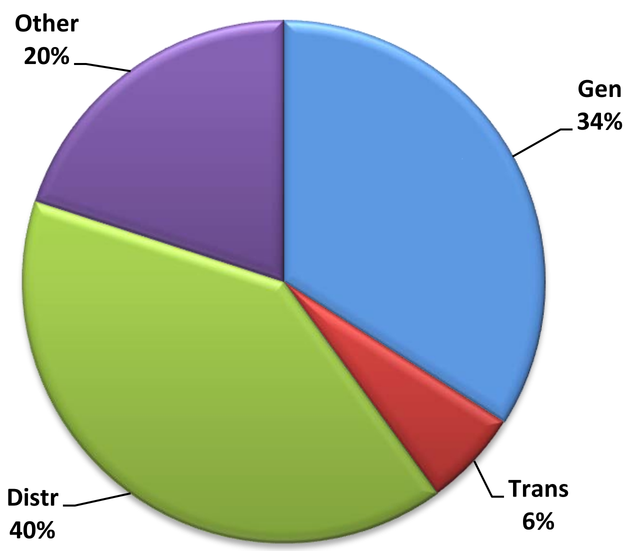
SMUD has invested approximately $3,339.7 million in electric utility plant assets and construction work in progress (CWIP) after accumulated depreciation at December 31, 2012. The category, "Total electric utility plant – net" makes up about 61 percent of SMUD's assets and deferred outflows of resources, approximately 2 percent less than the previous year. In 2012, SMUD capitalized approximately $270 million of additions to electric utility plant in SMUD's Consolidated Statements of Net Position. The capital additions were primarily for the Solano Wind Phase 3 project, East Campus Operations Center and Smart Grid projects such as smart meters, distribution automation, and AMI software, as well as the purchase of line trucks, and the Microgrid project.

2011 compared to 2010

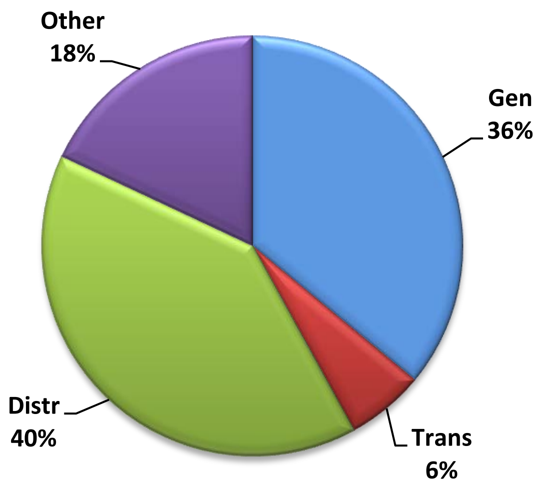
SMUD has invested approximately $3,248.3 million in electric utility plant assets and CWIP after accumulated depreciation at December 31, 2011. The category, "Total electric utility plant – net" makes up about 63 percent of SMUD's assets and deferred outflows of resources, approximately 4 percent more than the previous year. In 2011, SMUD capitalized approximately $423.4 million of additions to electric utility plant, including additions to CWIP in SMUD's Consolidated Statements of Net Position. The additions were primarily for the Solano Wind Phase 3 project, East Campus Operations Center and Smart Grid projects like smart meters, distribution automation and AMI software.

The following charts show the breakdown of net utility plant by major plant category – Generation (Gen), Transmission (Trans), Distribution (Distr), and Other:

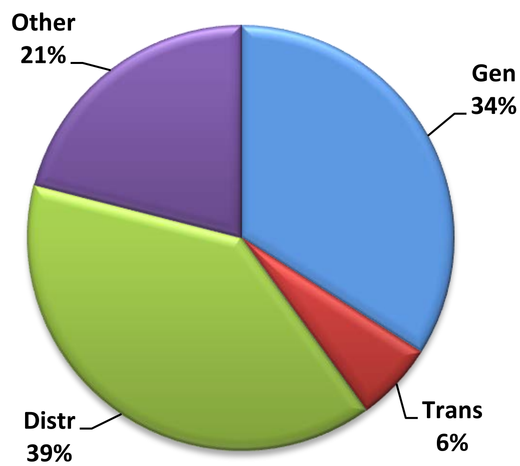
December 31, 2012



December 31, 2011



December 31, 2010



Restricted and Designated Assets

2012 compared to 2011

SMUD's restricted and designated assets decreased by $7.2 million during 2012. There was a decrease of $5.7 million in the RSF (including the HRSF) as a result of lower precipitation and higher energy deliveries from Western. The year also ended with a higher current portion of restricted and designated assets. This was offset by a $7.6 million increase in Revenue bond, debt service, and construction reserves due to a $9 million transfer from unrestricted funds for payment of debt service and $8.7 million more funds from operations, offset by a $10.1 million decrease in reserve funds due to the bond refundings of Series Q02 and R03 with the issuance of 2012 Series Y Electric Revenue Refunding Bonds.

2011 compared to 2010

SMUD's restricted and designated assets increased by $35.8 million during 2011. Revenue bond, debt service, and construction reserves decreased by $37.6 million due to spending the balance of the construction fund of $19.0 million and lower reserve funds due to the bond refundings with the issuance of 2011 Series X Electric Revenue Refunding Bonds. This decrease was offset by a $50.5 million increase in the RSF (including the HRSF) as a result of higher precipitation and higher energy deliveries from Western. The year also ended with a lower current portion of restricted and designated assets.

Current Assets

2012 compared to 2011

Current assets increased by $214.7 million in 2012 mainly due to increases in the following: $106.5 million in unrestricted cash and cash equivalents, $56.3 million in net receivables, $55.8 million in unrestricted investments, $11.0 million in inventories and prepayments, and $9.6 million in the current portion of restricted and designated cash, cash equivalents and investments. This is partially offset by a decrease of $20.0 million and $4.5 million in credit support collateral deposits and regulatory costs to be recovered within one year, respectively.

2011 compared to 2010

Current assets decreased by $190.1 million in 2011 mainly due to decreases in the following: $109.4 million in unrestricted cash and cash equivalents, $31.8 million in regulatory costs to be recovered within one year, $23.3 million in the current portion of restricted and designated investments, $19.9 million in net receivables, and $9.2 million of hedging derivative instruments maturing within one year.

Noncurrent Assets and Deferred Charges

2012 compared to 2011

Total noncurrent assets and deferred charges increased by $107.6 million mainly due to increases of $142.8 million and $34.1 million in prepaid power and capacity and prepayments and other, respectively. These increases were partially offset by the following decreases: $29.2 million in credit support and collateral deposits, $21.6 million in prepaid gas, $9.1 million in energy efficiency loans - net, and $7.7 million in regulatory costs for future recovery.

2011 compared to 2010

Total noncurrent assets and deferred charges decreased by $29.0 million mainly due to decreases in the following: $21.2 million in prepaid gas, $9.2 million in energy efficiency loans – net. These decreases were partially offset by a $10.8 million increase in hedging derivative instruments.

Deferred Outflows of Resources

2012 compared to 2011

Total deferred outflows of resources decreased $96.1 million due to a decrease in the fair value of hedging derivative instruments.

2011 compared to 2010

Total deferred outflows of resources decreased $1.9 million due to a decrease in the fair value of hedging derivative instruments.

Liabilities

Long-term debt - net

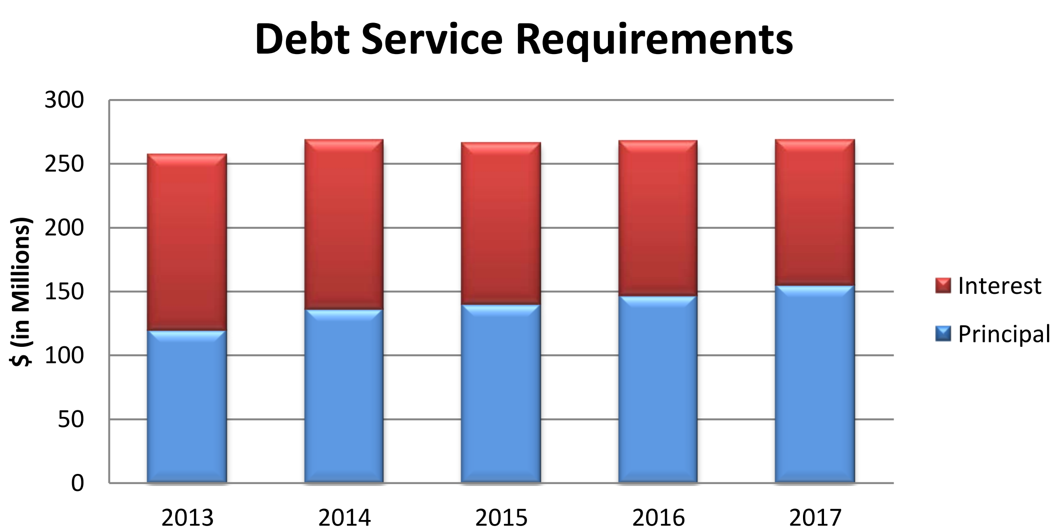
2012 compared to 2011

In May 2012, SMUD issued $196.9 million of 2012 Series Y Electric Revenue Refunding Bonds. The proceeds from the issuance along with $10.0 million of available funds were used to refund $219.9 million of the outstanding 2002, 2003, and 2004 revenue bonds through a legal defeasance.

2011 compared to 2010

In October 2011, SMUD issued $325.6 million of 2011 Series X Electric Revenue Refunding Bonds and in August 2011 redeemed $17.6 million of SMUD 2001 Series O & P Bonds.

The following table shows SMUD's future debt service requirements through 2017 as of December 31, 2012:



As of December 31, 2012, SMUD had an underlying rating of "A+" from Standard & Poor's, "A+" from Fitch, and "A1" from Moody's. Some of SMUD's bonds are insured and are rated by the rating agencies at the higher of the insurer's rating or SMUD's underlying rating.

Current Liabilities and Deferred Credits

2012 compared to 2011

Current liabilities and deferred credits decreased by $66.0 million during 2012. The decrease is primarily due to a $67.3 million decrease in accounts payable, and $36.4 million decrease in hedging derivative instruments maturing within one year, offset by a $21.3 million increase in customer deposits and other and a $16.7 million increase in long-term debt due within one year.

2011 compared to 2010

Current liabilities and deferred credits increased by approximately $19.7 million during 2011. The increase is primarily due to a $65.6 million increase in accounts payable, which includes a deposit of $28.0 million for the sale of Solano Wind Phase 3 (see Note 2), offset by a $31.6 million decrease in purchase power payables and a $13.6 million decrease in investment derivative instruments maturing within one year.

Noncurrent Liabilities and Deferred Credits

2012 compared to 2011

Noncurrent liabilities and deferred credits increased by $198.8 million during 2012. The increase was mainly due to a $254.9 million increase in self insurance, deferred credits, and other primarily due to the Solano Wind Phase 3 project (see Note 2). The increase was offset by a $57.5 million decrease in hedging derivative instruments.

2011 compared to 2010

Noncurrent liabilities and deferred credits increased by $112.5 million during 2011. Regulatory credits increased by $90.8 million, reflecting the deferral of grant revenues related to capital projects and an increase in the HRSF and the RSF due to higher precipitation and higher energy deliveries from Western. There was a $14.2 million increase in self insurance, deferred credits, and other primarily due to deferred grant revenue. Accrued decommissioning increased by $6.6

million, reflecting a higher estimate for the cost of completing decommissioning at the Rancho Seco nuclear plant site.

Condensed Statement of Consolidated Revenues, Expenses and Changes in Net Position

	December 31, 2012	2011	2010
	(millions of dollars)		
Operating revenues	$ 1,382	$ 1,360	$ 1,323
Operating expenses	(1,150)	(1,162)	(1,156)
Operating income	232	198	167
Other revenues	57	13	4
Interest charges	(129)	(141)	(140)
Change in net position	160	70	31
Net position – beginning of year	617	547	516
Net position – end of year	$ 777	$ 617	$ 547

Changes in Net Position

Operating Revenues

2012 compared to 2011

Operating revenues were $1,382.3 million in 2012, an increase of $22.3 million from 2011. Sales to retail customers were $1,245.5 million in 2012, an increase of $8.0 million as compared to 2011 sales. SMUD sold about 1 percent more energy to its retail customers, which grew from 599,826 customers in 2011 to 604,053 customers at the end of 2012, at an average revenue per kilowatt hour that remained flat.

SMUD transferred $0.6 million to the RSF in 2012 as compared to a transfer to the RSF of $10.1 million in 2011. SMUD also transferred $6.4 million from the HRSF during 2012 as compared to a $40.4 million transfer to the fund in 2011. Additionally, SMUD spent more than it collected in SB-1 revenues and has reduced the regulatory credit by $3.2 million.

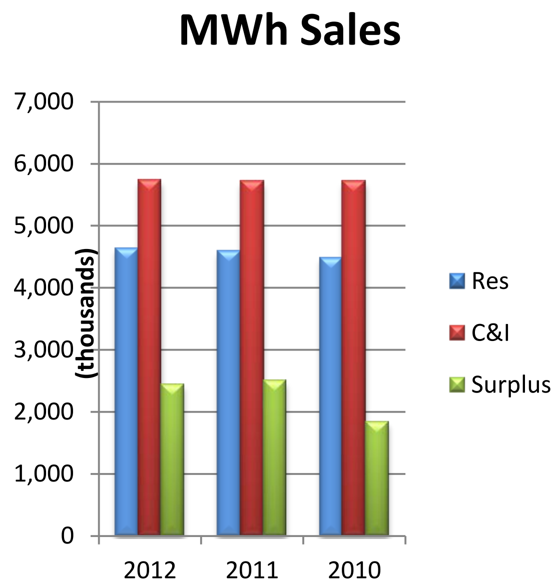
Wholesale revenues are composed of both surplus gas and energy sales. In 2012, surplus gas sales were $48.7 million as compared to $88.2 million in 2011. The amount of surplus gas sold was 45 percent lower and was sold at lower average prices than previous year.

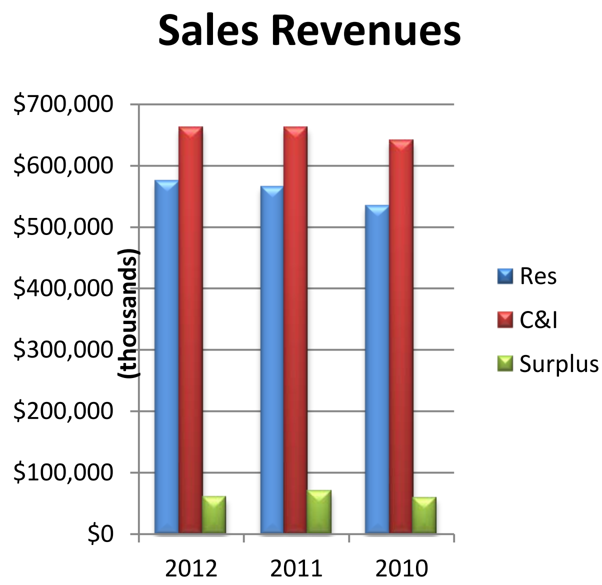
Surplus energy sales in 2012 were $10.3 million lower than in 2011 due to lower volumes and lower prices.

2011 compared to 2010

Operating revenues were $1,360.0 million in 2011, an increase of $36.7 million from 2010. Sales to retail customers were $1,237.5 million in 2011, an increase of $53.6 million as compared to 2010 sales. SMUD sold about 1 percent more energy to its retail customers, which grew from 597,097 customers in 2010 to 599,826 customers at the end of 2011, at an average revenue per kilowatt hour that rose by 3.6 percent. SMUD transferred $10.1 million to the RSF in 2011 as compared to a transfer from the RSF of $2.1 million in 2010. SMUD also transferred $40.4 million to the HRSF during 2011 as compared to a $4.1 million transfer from the fund in 2010. Additionally, SMUD deferred approximately $0.5 million of Senate Bill 1 revenue to be matched against expense in future years. Wholesale revenues are composed of both surplus gas and energy sales. In 2011, surplus gas sales were $88.2 million as compared to $60.0 million in 2010. The amount of surplus gas sold was 54 percent higher, but at lower average prices. Surplus energy sales in 2011 were $10.9 million higher than in 2010 due to higher volume, offset by lower prices.

The following charts show the megawatt hour (MWh) sales, and sales revenue in 2012, 2011, and 2010, by surplus energy sales (Surplus), commercial and industrial (C&I) and residential (Res) customers.





Operating Expenses

2012 compared to 2011

Operating expenses were $1,150.3 million in 2012, a decrease of $11.5 million from 2011. Purchased power expense was $4.5 million higher in 2012, mainly due to higher volumes offset by lower average prices as compared to 2011. Approximately 15 percent more energy was purchased in 2012 at prices that averaged 11 percent lower than in 2011.

In 2012, net fuel costs for generation, a component of production costs, were approximately $269.7 million (inclusive of ineffective hedges reported as investment expense), or $11.2 million lower than 2011. More fuel was used in 2012 (4.0 million dekatherms), primarily due to higher production at the component unit generation plants (11 percent). Average net fuel prices were lower by 13 percent in 2012 as compared to 2011.

In 2012, power supply costs made up approximately 54 percent of total operating expenses as compared to 56 percent for 2011.

Depreciation expense decreased by $4.5 million due to fully depreciated meters and a reduction in the component units' plant in service as a result of the Fru-Con settlement (see Note 18).

There was no change in the $6.0 million from Regulatory deferrals collected in rates due to the final year of amortization of remediation obligations related to the North City substation.

Administrative, general and customer expenses, were $7.6 million higher in 2012 than in 2011, mainly due to higher expense in various customer programs.

2011 compared to 2010

Operating expenses were $1,161.8 million in 2011, an increase of $5.5 million from 2010. Purchased power expense was $18.2 million lower in 2011, mainly due to lower average prices as compared to 2010, even though more energy was purchased than in 2010. Approximately 12 percent more energy was purchased in 2011 at prices that averaged 17 percent lower than in 2010.

In 2011, net fuel costs for generation, a component of production costs, were approximately $281.0 million (inclusive of ineffective hedges reported as investment expense), or $14.3 million lower than 2010. Less fuel was used in 2011 (4.8 million decatherms), primarily due to lower production at the component unit generation plants (13 percent). Average net fuel prices were higher by 7 percent in 2011 as compared to 2010.

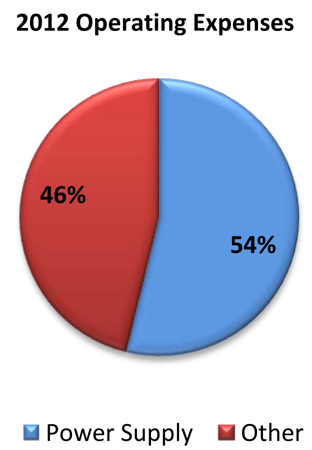
In 2011, power supply costs made up approximately 56 percent of total operating expenses as compared to 59 percent for 2010.

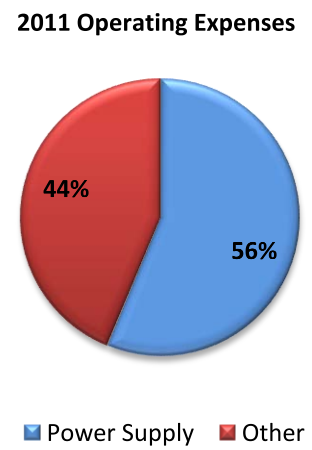
Depreciation expense increased by $7.3 million due to a decrease in the remaining service life for meters as SMUD transitions to advanced metering technology, and due to software, hardware, and other normal capital plant additions.

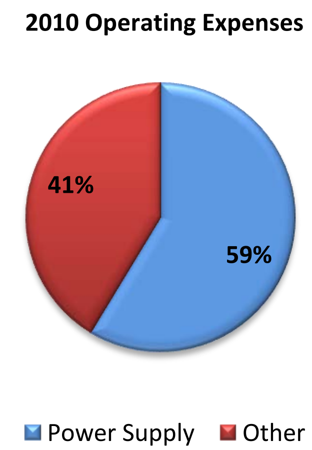
Regulatory deferrals collected in rates increased $6.0 million due to amortization of remediation obligations related to the North City substation.

Administrative, general and customer expenses, were $4.5 million higher in 2011 than in 2010, mainly due to higher Home Performance Program expense offset by a decrease in uncollectible energy efficiency loans.

The following charts compare the relative cost of purchased power, production expenses, and depletion of the Rosa gas field (power supply costs) to all other operating expenses in 2012, 2011, and 2010:







Other Revenues and (Expenses)

2012 compared to 2011

Other revenues were $44.5 million higher in 2012 as compared to 2011. Interest income and Other Income – net was higher by $19.2 million and $14.8 million, respectively, mainly due to the Fru-Con settlement related to the Cosumnes Power Plant litigation (see Note 2). Also Grant revenue and pass through expenditures increased $6.1 million and there was a $4.4 million decrease in investment expense related to ineffective hedges.

2011 compared to 2010

Other revenues were $9.0 million higher in 2011 as compared to 2010. Interest income was $7.8 million higher due to interest received from wholesale power settlement (see Note 18). Grant revenue and pass through expenditures increased $8.9 million. These increases were partially offset by an $8.5 million increase in investment expense related to ineffective hedges.

Interest Charges

2012 compared to 2011

Total interest charges were $11.6 million lower in 2011 compared to 2010.

2011 compared to 2010

Total interest charges were $0.8 million higher in 2011 compared to 2010.

Extraordinary Income

SMUD recognized extraordinary income of $0.1 million in 2011 for power settlements.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION

	DECEMBER 31, 2012	DECEMBER 31, 2011
	(thousands of dollars)	
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 5,006,208	$ 4,747,914
Less accumulated depreciation and depletion	(2,000,987)	(1,917,439)
Plant in service - net	3,005,221	2,830,475
Construction work in progress	334,488	417,819
Total electric utility plant - net	3,339,709	3,248,294
RESTRICTED AND DESIGNATED ASSETS		
Revenue bond, debt service and construction reserves	209,544	201,941
Nuclear decommissioning trust fund	31,077	30,890
Rate stabilization fund	86,231	91,964
Other funds	954	654
Less current portion	(94,773)	(85,172)
Total restricted and designated assets	233,033	240,277
CURRENT ASSETS		
Unrestricted cash and cash equivalents	368,186	261,709
Unrestricted investments	55,809	-0-
Restricted and designated cash and cash equivalents	42,189	39,846
Restricted and designated investments	52,584	45,326
Receivables - net:		
Retail customers	152,450	153,612
Wholesale	9,311	9,624
Other	110,284	52,521
Regulatory costs to be recovered within one year	16,363	20,856
Investment derivative instruments maturing within one year	19	758
Hedging derivative instruments maturing within one year	4,293	4,031
Inventories	51,752	48,145
Prepaid gas to be delivered within one year	21,626	21,194
Credit support collateral deposits	4,873	24,835
Prepayments	19,259	11,844
Total current assets	908,998	694,301
NONCURRENT ASSETS AND DEFERRED CHARGES		
Regulatory costs for future recovery	194,727	202,427
Prepaid gas	363,225	384,851
Prepaid power and capacity	154,637	11,877
Investment derivative instruments	35	-0-
Hedging derivative instruments	40,310	38,410
Unamortized debt issuance costs	23,307	26,895
Energy efficiency loans - net	39,722	48,778
Credit support collateral deposits	27	29,215
Prepayments and other	45,768	11,698
Total noncurrent assets and deferred charges	861,758	754,151
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	119,663	215,724
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,463,161	$ 5,152,747

SACRAMENTO MUNICIPAL UTILITY DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION

	DECEMBER 31, 2012	DECEMBER 31, 2011
	(thousands of dollars)	
LIABILITIES		
LONG-TERM DEBT - net	$ 3,030,485	$ 3,012,935
CURRENT LIABILITIES AND DEFERRED CREDITS		
Commercial paper notes	200,000	200,000
Accounts payable	75,685	143,011
Purchased power payable	20,894	20,475
Credit support collateral obligation	160	360
Long-term debt due within one year	119,210	102,520
Accrued decommissioning	6,300	4,935
Interest payable	42,861	41,808
Accrued salaries and compensated absences	34,226	36,612
Investment derivative instruments maturing within one year	16,236	15,480
Hedging derivative instruments maturing within one year	81,368	117,761
Regulatory credits to be recognized within one year	17,233	18,474
Customer deposits and other	56,797	35,531
Total current liabilities and deferred credits	670,970	736,967
NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Accrued decommissioning	172,828	172,245
Investment derivative instruments	35,846	44,873
Hedging derivative instruments	82,899	140,404
Regulatory credits	382,369	372,584
Due to affiliated entity	9,186	9,497
Due to U.S. Bureau of Reclamation	6,576	6,179
Self insurance, deferred credits and other	295,007	40,114
Total noncurrent liabilities and deferred credits	984,711	785,896
TOTAL LIABILITIES	4,686,166	4,535,798
NET POSITION		
Net investment in capital assets	435,596	413,845
Restricted	122,268	109,831
Unrestricted	219,131	93,273
TOTAL NET POSITION	776,995	616,949
COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)		
TOTAL LIABILITIES AND NET POSITION	$ 5,463,161	$ 5,152,747

SACRAMENTO MUNICIPAL UTILITY DISTRICT
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended December 31, 2012	2011
	(thousands of dollars)	
OPERATING REVENUES		
Residential	$ 569,210	$ 559,424
Commercial and industrial	662,026	662,267
Street lighting and other	33,353	30,692
Wholesale	108,712	158,572
Senate Bill - 1 revenue (deferral)	3,240	(454)
Rate stabilization fund transfers	5,733	(50,493)
Total operating revenues	1,382,274	1,360,008
OPERATING EXPENSES		
Operations:		
Purchased power	241,847	237,360
Production	362,346	404,770
Transmission and distribution	54,515	50,878
Administrative, general and customer	152,109	144,547
Public good	68,675	58,063
Maintenance	80,997	74,688
Depreciation	165,460	169,987
Depletion	14,773	11,500
Decommissioning	3,611	4,047
Regulatory deferrals collected in rates	6,000	6,000
Total operating expenses	1,150,333	1,161,840
OPERATING INCOME	231,941	198,168
NON-OPERATING REVENUES AND EXPENSES		
Other revenues and (expenses)		
Interest income	37,115	17,877
Investment expense	(34,296)	(38,682)
Revenue - Grants	34,567	17,882
Pass through expenditures - Grants	(13,524)	(2,971)
Other income - net	33,457	18,691
Total other revenues and (expenses)	57,319	12,797
Interest charges		
Interest on debt	137,670	146,685
Loss on debt extinguishment and refundings	-0-	59
Allowance for funds used during construction	(8,456)	(5,907)
Total interest charges	129,214	140,837
CHANGE IN NET POSITION BEFORE EXTRAORDINARY INCOME	160,046	70,128
EXTRAORDINARY INCOME		
Natural gas and power settlement proceeds	-0-	134
CHANGE IN NET POSITION	160,046	70,262
NET POSITION - BEGINNING OF YEAR	616,949	546,687
NET POSITION - END OF YEAR	$ 776,995	$ 616,949

SACRAMENTO MUNICIPAL UTILITY DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2012	2011
	(thousands of dollars)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from retail customers	$ 1,258,903	$ 1,245,166
Receipts from surplus power sales	59,036	128,194
Receipts from surplus gas sales	49,361	90,657
Receipts from steam sales	7,189	7,885
Settlement proceeds	36,345	134
Other receipts	12,273	7,336
Payments/receipts for credit support collateral	48,950	(9,840)
Issuance/repayment of energy efficiency loans, net	10,315	8,904
Payments to employees - payroll and other	(218,345)	(210,527)
Payments for wholesale power	(233,202)	(270,551)
Payments for gas purchases	(278,631)	(319,783)
Payments to vendors/others	(275,121)	(185,273)
Payments for decommissioning	(4,362)	(3,406)
Net cash provided by operating activities	472,711	488,896
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of debt	(21,975)	(22,370)
Receipts from federal and state grants	82,277	74,124
Interest on debt	(16,829)	(18,159)
Net cash provided by noncapital financing activities	43,473	33,595
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Solano Wind Phase 3 financing obligation	20,869	28,000
Construction expenditures	(333,866)	(389,759)
Settlement proceeds	34,394	-0-
Contributions in aid of construction	12,955	9,654
Net proceeds from bond issues	375,833	367,876
Repayments and refundings of debt	(314,525)	(483,417)
Interest on debt	(120,875)	(132,692)
Net cash used in capital financing activities	(325,215)	(600,338)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and maturities of securities	78,296	236,239
Purchases of securities	(217,712)	(234,735)
Interest and dividends received	7,665	20,356
Investment revenue/expenses, net	(34,293)	(38,682)
Net cash used in investing activities	(166,044)	(16,822)
Net increase (decrease) in cash and cash equivalents	24,925	(94,669)
Cash and cash equivalents at the beginning of the year	443,323	537,992
Cash and cash equivalents at the end of the year	$ 468,248	$ 443,323
Cash and cash equivalents included in:		
Unrestricted cash and cash equivalents	$ 368,186	$ 261,709
Restricted and designated cash and cash equivalents	42,189	39,846
Revenue bond, debt service and construction reserves (a component of the total of $209,544 and $201,941 at December 31, 2012 and 2011, respectively)	57,873	141,768
Cash and cash equivalents at the end of the year	$ 468,248	$ 443,323

The accompanying notes are an integral part of these consolidated financial statements.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of the consolidated statements of cash flows operating activities to operating income is as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(thousands of dollars)	
Operating income	$ 231,941	$ 198,168
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	165,460	169,987
Depletion	14,773	11,500
Decommissioning	9,611	10,047
Amortization of advance capacity & other	983	5,505
Amortization of prepaid gas supply	21,194	21,310
Revenue (recognized from) deferred to regulatory credits, net	(4,422)	50,674
Settlement proceeds	36,345	134
Payments for credit support collateral, net	48,950	(9,840)
Other receipts/payments	(13,481)	861
Changes in operating assets and liabilities:		
Customer and wholesale receivables	1,310	60,868
Energy efficiency loans	10,315	8,904
Other assets	(41,169)	(1,610)
Payables and accruals	(4,737)	(34,206)
Decommissioning	(4,362)	(3,406)
Net cash provided by operating activities	$ 472,711	$ 488,896

The supplemental disclosure of noncash financing and investing activities is as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(thousands of dollars)	
Gain or (Loss) on debt extinguishment and refundings	-0-	(59)
Amortization of debt related costs	(1,505)	(1,287)
Unrealized holding gain or (loss)	302	152
Change in valuation of derivative financial instruments	103,627	14,174
Amortization of revenue for assets contributed in aid of construction	14,194	11,251
Allowance for funds used during construction	8,456	5,907
Construction costs included in accounts payable	30,531	66,627
Solano Wind Phase 3 financing obligation	(229,158)	-0-

Sacramento Municipal Utility District

Notes To Consolidated Financial Statements

NOTE 1. ORGANIZATION

The Sacramento Municipal Utility District (SMUD) was formed and operates under the State of California Municipal Utility District Act (Act). The Act gives SMUD the rights and powers to fix rates and charges for commodities or services it furnishes, and to incur indebtedness and issue bonds or other obligations.

As a community-owned utility, SMUD is not subject to regulation or oversight by the California Public Utilities Commission.

SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and small adjoining portions of Placer and Yolo Counties. The Board of Directors (Board) determines SMUD's rates.

SMUD is exempt from payment of federal and state income taxes and, under most circumstances, real and personal property taxes. SMUD is not exempt from real and personal property taxes on assets it holds outside of California. In addition, SMUD is responsible for the payment of a portion of the property taxes associated with its real property in California that lies outside of its service area.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. SMUD's accounting records are maintained in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification* ™, sometimes referred to as the Codification or ASC. References to GAAP issued by the GASB in these footnotes are to the Statement of Governmental Accounting Standards (SGAS) No. 62, **"*Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30,1989 FASB and AICPA Pronouncements*"** (GASB No. 62) (See Note 3). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC), except as it relates to the accounting for contributions of utility property in aid of construction. SMUD's Consolidated Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Electric revenues and costs that are directly related to the acquisition, generation, transmission, and distribution of electricity are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Financial Reporting Entity. These Consolidated Financial Statements include SMUD and its component units. Although the component units are legally separate from SMUD, they are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. All significant inter-component transactions have been eliminated in consolidation.

Component Units. The component units include the Central Valley Financing Authority (CVFA), the Sacramento Cogeneration Authority (SCA), the Sacramento Power Authority (SPA), the Sacramento Municipal Utility District Financing Authority (SFA), and the Northern California Gas Authority No. 1 (NCGA). The primary purpose of CVFA, SCA, SPA and SFA is to own and operate electric utility plants that supply power to SMUD. The primary purpose of NCGA is to prepay for natural gas and to sell the natural gas to SMUD. SMUD's Board comprises the Commissions that govern these entities (see Note 6).

Plant in Service. The cost of additions to Plant in Service and replacement property units is capitalized. Repair and maintenance costs are charged to expense when incurred. When SMUD retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. The costs of removal and the related salvage value, if any, are charged or credited as appropriate to Accumulated Depreciation. SMUD generally computes depreciation on Plant in Service on a straight-line, service-life basis. The consolidated average annual composite depreciation rates for 2012 and 2011 were 3.54 and 3.84 percent, respectively. Depreciation is calculated using the following estimated lives:

Generation...5 to 80 years
Transmission and Distribution..5 to 50 years
Gas Pipeline...5 to 90 years
General..3 to 50 years

Capital assets are generally defined by SMUD as tangible assets with an initial, individual cost of more than one thousand dollars and an estimated useful life in excess of two years.

Investments in Joint Power Agency (JPA). SMUD's investment in the Transmission Agency of Northern California (TANC) is accounted for under the equity method of accounting and is reported as a component of Plant in Service. SMUD's share of the TANC debt service costs and operations and maintenance expense, inclusive of depreciation, is included in Transmission and Distribution expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Investments in Gas Properties. SMUD has an approximate 21 percent non-operating ownership interest in the Rosa Unit gas properties in New Mexico of which, SMUD's portion of the extracted gas is transported for use in its component unit natural gas-fired power plants (see Note 6). SMUD uses the successful efforts method of accounting for its investment in gas producing properties. Costs to acquire mineral interests in gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized as a component of Plant in Service on the Consolidated Statements of Net Position. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed. SMUD has purchased proven reserves and has not participated in exploratory drilling. Capitalized costs of producing gas properties, after considering estimated residual salvage values, are depleted by the unit-of–production method based on the estimated future production of the proved developed producing wells. SMUD's investment in gas properties is reported as a component of Plant in Service.

Restricted and Designated Assets. Cash, cash equivalents, and investments, which are restricted under terms of certain agreements for payments to third parties or Board actions limiting the use of such funds, are included as restricted assets. When SMUD restricts funds for a specific purpose, and both restricted and unrestricted resources are available for use, it is SMUD's policy to use restricted resources first, then unrestricted resources as they are needed.

Restricted Bond Funds. SMUD's Indenture Agreements (Indenture) and Bond Resolutions require the maintenance of minimum levels of reserves for debt service and certain construction costs intended by the related debt offerings.

Nuclear Decommissioning Trust Fund. SMUD made annual contributions to its Nuclear Decommissioning Trust Fund (Trust Fund) through 2008 to cover the cost of its primary decommissioning activities associated with the Rancho Seco facility. Primary decommissioning excludes activities associated with the spent fuel storage facility after 2008 and most non-radiological decommissioning tasks. SMUD determined early in 2008 that there were enough funds in the trust to complete the radiological decommissioning of the Rancho Seco nuclear plant site, and stopped contributing to the Trust Fund (see Note 13).

Interest earnings on the Trust Fund assets are recorded as Interest Income and are accumulated in the Trust Fund. Annual Decommissioning Expense is made up of the annual interest earned on the Trust Fund and fuel storage costs that cannot be taken from the Trust Fund.

Accrued Decommissioning. SMUD accrues decommissioning costs related to Utility Plant when an obligation to decommission facilities is legally required. Adjustments are made to such liabilities based on estimates by SMUD staff in accordance with FASB ASC 410, *Asset Retirement and Environmental Obligations* (FASB ASC 410). For active plants, such costs are included in the Utility Plant's cost and included as a component of Operating Expense over the Utility Plant's life. Expenditures for decommissioning activities are recorded as reductions to Accrued Decommissioning liability. Changes in the Rancho Seco decommissioning liability estimates arising from inflation, annual accretion, and other changes to the cost assumptions are recorded directly to Accrued Decommissioning with a corresponding adjustment to the related regulatory deferral. The current portion of the Accrued Decommissioning liability represents SMUD's estimate of actual expenditures in the next year, as set forth in the annual budget.

SMUD has identified potential retirement obligations related to certain generation, distribution and transmission facilities. SMUD's non-perpetual leased land rights generally are renewed continuously because SMUD intends to utilize these facilities indefinitely. Since the timing and extent of any potential asset retirements are unknown, the fair value of any obligations associated with these facilities cannot be reasonably estimated. Accordingly, a liability has not been recorded.

At December 31, 2012 and 2011, SMUD's Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to Rancho Seco was $170.0 million and $168.6 million, respectively (see Note 13). The Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to other electricity generation and gas production facilities totaled $9.1 million and $8.5 million as of December 31, 2012 and 2011, respectively.

Cash and Cash Equivalents. Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, all investments in the Local Agency Investment Fund (LAIF), and money market mutual funds. LAIF has an equity interest in the State of California (State) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. SMUD's deposits with LAIF comprise cash representing demand deposits up to $50.0 million maximum, and cash equivalents representing amounts above $50.0 million which may be withdrawn once per month after a thirty-day period. The debt instruments and money market mutual funds are reported at amortized cost which approximates fair value, and the LAIF is reported at the value of its pool shares.

Investments. SMUD's investments are reported at fair value. Realized and unrealized gains and losses are included in Other Income – net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Premiums and discounts on zero coupon bonds are amortized using the effective interest method. Premiums and discounts on other securities are amortized using the straight-line method, which approximates the effective interest method.

Electric Operating Revenues. Electric revenues are billed on the basis of monthly cycle bills and are recorded as revenue when the electricity is delivered. SMUD records an estimate for unbilled revenues earned from the dates its retail customers were last billed to the end of the month. At December 31, 2012 and 2011, unbilled revenues were $69.1 million and $68.3 million, respectively.

Purchased Power Expenses. A portion of SMUD's power needs are provided through power purchase agreements. Expenses from such agreements, along with associated transmission costs paid to other utilities, are charged to Purchased Power expense on the Consolidated Statements of Revenues, Expenses and Changes in Net Position in the period the power is received. The costs, or credits, associated with energy swap agreements (gas and electricity) or other arrangements that affect the net cost of Purchased Power are recognized in the period in which the underlying power delivery occurs. Contract termination payments and adjustments to prior billings are included in Purchased Power expense once the payments or adjustments can be reasonably estimated.

Advanced Capacity Payments. Some long-term agreements to purchase energy or capacity from other providers call for up-front payment. Such costs are generally recorded as an asset and amortized over the length of the contract.

Credit and Market Risk. SMUD enters into forward purchase and sales commitments for physical delivery of gas and electricity with utilities and power marketers. SMUD is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of these contractual agreements. In order to limit the risk of counterparty default, SMUD has a wholesale counterparty risk policy which includes using the credit agency ratings of SMUD's counterparties, credit enhancements for counterparties that do not meet an acceptable risk level, and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. SMUD is also subject to similar requirements for many of its gas and electricity purchase agreements. At December 31, 2012 and 2011, SMUD held $0.2 million and $0.4 million on deposit by counterparties, respectively. The amount is recorded as unrestricted cash with an associated short-term and long-term liability. At December 31, 2012, SMUD had $4.9 million cash collateral posted and $10.0 million of collateral posted via Letter of Credit with Counterparties. SMUD has a $50 million letter of credit facility to support collateral requirements under SMUD's various energy and natural gas purchase, sale and swap agreements, with $40 million available at December 31, 2012.

Accounts Receivable and Allowance for Doubtful Accounts. Accounts Receivable is recorded at the invoiced amount and does not bear interest, except for accounts related to energy efficiency loans. SMUD recognizes an estimate of uncollectible accounts for its receivables related to electric service, energy efficiency loans, and other non-electric billings, based upon its historical experience with collections and current energy market conditions. For large wholesale receivable balances, SMUD determines its bad debt reserves based on the specific credit issues for each account. SMUD records bad debts for its estimated uncollectible accounts related to electric service as a reduction to the related operating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. SMUD records bad debts for its estimated uncollectible accounts related to energy efficiency loans and other non-electric billings in Administrative, General and Customer expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

The summarized activity of the changes in the allowance for doubtful accounts during 2012 and 2011 is presented below:

	Balance at beginning of Year	Additions	Write-offs and (Recoveries)	Balance at end of Year
	(thousands of dollars)			
California ISO and PX:				
December 31, 2012	$ -0-	$ -0-	$ -0-	$ -0-
December 31, 2011	$ 24,007	$ -0-	$ 24,007	$ -0-
Other Non-Electric:				
December 31, 2012	$ 1,376	$ 277	$ 414	$ 1,239
December 31, 2011	$ 1,219	$ 568	$ 411	$ 1,376
Retail Customers:				
December 31, 2012	$ 3,903	$ 5,106	$ 5,699	$ 3,310
December 31, 2011	$ 3,946	$ 6,390	$ 6,433	$ 3,903
Energy Efficiency Loans:				
December 31, 2012	$ 2,716	$ (573)	$ (219)	$ 2,362
December 31, 2011	$ 3,283	$ (40)	$ 527	$ 2,716

Regulatory Deferrals. The Board has the authority to establish the level of rates charged for all SMUD services. As a regulated entity, SMUD's financial statements are prepared in accordance with GASB No. 62, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, customers. SMUD records various regulatory assets and credits to reflect rate-making actions of the Board (See Note 8).

Materials and Supplies. Materials and supplies are stated at average cost, which approximates the first-in, first-out method.

Unamortized Debt Issuance Costs. The costs incurred in connection with the issuance of debt obligations, principally underwriters fees and legal costs, are recorded as Unamortized Debt Issuance Costs in the Consolidated Statements of Net Position and are amortized over the terms of the related obligations using the effective interest method.

Compensated Absences. SMUD accrues vacation leave and compensatory time when employees earn the rights to the benefits. SMUD does not record sick leave as a liability until it is taken by the employee, since there are no cash payments for sick leave made when employees terminate or retire. At December 31, 2012 and 2011, the total estimated liability for vacation and other compensated absences was $22.0 million and $24.1 million, respectively.

Public Good. Public Good expenses consist of non-capital expenditures for energy efficiency programs, low income subsidies, renewable energy resources and technologies, and research and development.

Gains/Losses on Bond Refundings. Gains and losses resulting from bond refundings are included as a component of Long-Term Debt on the Consolidated Statements of Net Position and amortized as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Position over the shorter of the life of the refunded debt or the new debt using the effective interest method.

Gains/Losses on Bond Defeasances or Extinguishments. Gains and losses resulting from bond defeasances or extinguishments that were not financed with the issuance of new debt are included as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Allowance for Funds Used During Construction (AFUDC). SMUD capitalizes, as an additional cost of Construction Work In Progress (CWIP), AFUDC, which represents the cost of borrowed funds used for such purposes. The amount capitalized is determined by a formula prescribed by FERC. The AFUDC rate for 2012 and 2011 was 3.7 percent and 3.9 percent, of eligible CWIP, respectively.

Derivative Financial Instruments. SMUD records derivative financial instruments (interest rate swap and gas price swap agreements, certain wholesale sales agreements, certain electricity purchase agreements and option agreements) at fair value on its Consolidated Statements of Net Position. SMUD generally does not enter into agreements for trading purposes. Fair market value is estimated by comparing contract prices to forward market prices quoted by third party market participants and/or provided in relevant industry publications. SMUD is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated. SMUD reports derivative financial instruments with remaining maturities of one year or less and the portion of long-term contracts with scheduled transactions over the next twelve months as current on the Consolidated Statements of Net Position (see Note 9).

Interest Rate Swap Agreements. SMUD enters into interest rate swap agreements to modify the effective interest rates on outstanding debt (see Notes 9 and 10).

Gas and Electricity Price Swap and Option Agreements. SMUD uses forward contracts to hedge the impact of market volatility on gas commodity prices for its gas-fueled power plants and for energy prices on purchased power for SMUD's retail load (see Note 9).

Solano Wind Sale. SMUD entered into an agreement to sell the Solano Wind Phase 3 plant in December 2011 with a corresponding Power Purchase Agreement for all the output of the plant. As part of that agreement, SMUD received $28.0 million in December 2011, which was recorded as a component of Accounts Payable on the Consolidated Statements of Net Position.

In April 2012, under the terms of the Construction Management Agreement, SMUD, on behalf of the purchaser, completed construction of the plant, with the revenue recognition from the transaction, which was accounted for as a financing agreement, to occur over the life of the contracts. Pursuant to the Facility Administration Agreement, SMUD will perform services at the facility under the direction and for the benefit of the purchaser. Pursuant to the ground and property lease, SMUD is leasing the site to the purchaser for a term of twenty years with an option to extend for five additional years.

The sale proceeds, as well as the initial deposit have been recorded as Self Insurance, Deferred Credits and Other on the Consolidated Statements of Net Position and will be amortized as Purchased Power Expense on the Consolidated Statement of Revenues, Expenses, and Changes in Net Position over the life of the agreement. The remainder of the sale proceeds, which are expected to be received in 2013, are recorded as Accounts Receivable – Net Other on the Consolidated Statements of Net Position. The prepayment for purchased power over the life of the contract has been recorded as Prepaid Power and Capacity on the Consolidated Statements of Net Position and will be amortized as Purchased Power Expense on the Consolidated Statement of Revenues, Expenses, and Changes in Net Position over the life of the agreement (see Note 17 for language about the Power Purchase Agreement).

Precipitation Hedge Agreements. SMUD enters into non-exchange traded precipitation hedge agreements to hedge the cost of replacement power caused by low precipitation years (Precipitation Agreements). SMUD records the intrinsic value of the Precipitation Agreements on the Consolidated Statements of Net Position. Settlement of the Precipitation Agreements is not performed until the end of the period covered (water year ended September 30). The intrinsic value of a Precipitation Agreement is the difference between the expected results from a monthly allocation of the cumulative rainfall amounts, in an average rainfall year, and the actual rainfall during the same period.

Insurance Programs. SMUD records liabilities for unpaid claims at their present value when they are probable in occurrence and the amount can be reasonably estimated. SMUD records a liability for unpaid claims associated with general, auto, workers' compensation, and short-term and long-term disability based upon estimates derived by SMUD's claims administrator or SMUD staff. The liability comprises the present value of the claims outstanding, and includes an amount for claim events incurred but not reported based upon SMUD's experience (see Note 16).

Assembly Bill 32. California Assembly Bill 32 (AB-32) is an effort by the State of California to set a 2020 greenhouse gas emissions reduction goal into law. The goal is to reach a statewide emission limit of 427 million metric tons of carbon dioxide equivalent of greenhouse gases (GHG). Central to this initiative is the implementation of a cap and trade program, which covers major sources of GHG emissions in the State including power plants. The cap and trade program includes an enforceable emissions cap that will decline over time. The State will distribute allowances, which are tradable permits, equal to the emissions allowed under the cap. Sources under the cap will need to surrender allowances and offsets equal to their emissions at the end of each compliance period. SMUD is subject to AB-32. SMUD participated in the first program auction in 2012 and expects to recover AB-32 costs through its power sales revenues. SMUD is monitoring legislation and proposed programs that would impact AB-32 (see Note 8).

Net Position. SMUD classifies its net position into three components as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of Accumulated Depreciation, reduced by the outstanding debt balances, net of unamortized debt expenses. Deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included.
- Restricted – This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in net capital, above), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Board. These restricted assets are reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted – This component of net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of "Net investment in capital assets" or "Restricted."

Contributions in Aid of Construction (CIAC). SMUD records CIAC from customer contributions, primarily relating to expansions to SMUD's distribution facilities, as Other Income - Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Contributions of capital are valued at estimated market cost. For rate-making purposes, the Board does not recognize such revenues when received; rather, CIAC is included in revenues as such costs are amortized over the estimated useful lives of the related distribution facilities.

Revenues and Expenses. SMUD distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SMUD's principal ongoing operations. The principal operating revenues of SMUD are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Grants. SMUD receives grant proceeds from federal and state assisted programs for its advanced and renewable technologies, electric vehicle, and energy efficiency programs. SMUD also periodically receives grant proceeds from federal or state assistance programs as partial reimbursements for costs it has incurred as a result of storm damages. Additionally, SMUD received several large American Recovery and Reinvestment Act (ARRA) grants in 2009. When applicable, these programs may be subject to financial and compliance audits pursuant to regulatory requirements. SMUD considers the possibility of any material disallowances to be remote. During 2012, SMUD recorded $59.9 million of grant proceeds and recognized $34.6 million as a component of Revenue - Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, $20.6 million as a Regulatory Credit (Note 8), and $4.7 million as deferred revenues as a component of Self Insurance, Deferred Credits and Other on the Consolidated Statements of Net Position. During 2011, SMUD recorded $75.3 million of grant proceeds and recognized $17.9 million as Revenue - Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, $41.9 million as a Regulatory Deferral (Note 8), and $15.5 million as deferred revenues as a component of Self Insurance, Deferred Credits and Other on the Consolidated Statements of Net Position.

In 2010, SMUD issued taxable Build America Bonds. SMUD will receive an interest subsidy from the federal government equal to 35 percent of the interest paid (see Note 10). In both 2012 and 2011, SMUD recognized $9.8 million in revenues for its Build America Bonds, as a component of Other Income - Net, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Extraordinary Income. In 2011, SMUD received and recognized an additional $0.1 million of extraordinary income for purchased power settlements.

Pollution Remediation. In December 2009, SMUD identified a pollution remediation obligation at its North City Substation. This substation was built on a former landfill, and the site requires remediation. As part of the 2010 Budget Resolution, the Board authorized SMUD to defer the expense for rate-making purposes, and SMUD recorded a pollution remediation liability of $12.0 million and a corresponding regulatory asset for the remediation project. SMUD expensed $6.0 million of the costs in 2012 and $6.0 million of the costs in 2011 (see Note 8).

Customer Sales and Excise Taxes. SMUD is required by various governmental authorities, including states and municipalities, to collect and remit taxes on certain customer sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Termination Benefits. Termination benefits are benefits provided to employees as an incentive to hasten the termination of services, as a result of a voluntary early termination, or as a consequence of involuntary early termination.

SMUD has identified a termination benefit liability related to certain employees related to the Rancho Seco site. There are voluntary separation programs and retention agreements for certain employees. Benefits provided include up to six months of paid Consolidated Omnibus Reconciliation Act of 1985 (COBRA) medical benefits, outplacement services, and severance, based on length of service and type of termination agreement. Employees with sufficient length of service are eligible for Other Post Employment Benefits (OPEB) after termination.

Various positions have had separation package and talent retention programs which were outlined with employees. Benefits provided include up to 12 weeks of paid leave, plus pay in lieu of benefits for up to 12 weeks. Because some of the affected employees must work through December 2012, the amount of the termination liability was recognized ratably on a monthly basis through December 2012. As of December 31, 2012, 1 employee had a retention agreement, and 7 employees had termination benefits, the total of $0.3 million, was recorded as a component of Customer Deposits and Other on the Consolidated Statements of Net Position.

Fru-Con Settlement. In August 2003, SMUD entered into a contract with Fru-Con Construction Corporation (Fru-Con) to construct the Cosumnes Power Plant (CPP). In February 2005, SMUD terminated its contract with Fru-Con on the basis of breach of contract by Fru-Con and took steps to complete the CPP project. SMUD filed suit against Fru-Con. In January 2006, SFA issued bonds, which were used to purchase the plant from SMUD. The total project cost of $417.7 million was transferred to SFA from SMUD, of which $127.2 million was contributed by SMUD. Under the Asset Sales agreement between SMUD and SFA, any Fru-Con litigation proceeds were to be kept by SMUD. In October 2012, SMUD received a $70.7 Million settlement of the Fru-Con case, of which $28.8 million was recorded in Interest Income in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, and $7.5 million was recorded as Other Income - Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, and the remainder of $34.4 was recorded as a reduction in member contributions to SFA. SFA recorded the $34.4 million as a reduction in Member Contribution, and a reduction in Plant In Service. On the Consolidated Statements of Net Position, the $34.4 million was recorded as a reduction to Plant in Service (see Note 18).

Subsequent events. Subsequent events for SMUD have been evaluated through February 22, 2013, which is the date that the financial statements were available to be issued.

Reclassifications. Certain amounts in the 2011 Consolidated Financial Statements have been reclassified in order to conform to the 2012 presentation.

Recent Accounting Pronouncements. In December 2009, GASB issued SGAS No. 57, **"*OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans*"** (GASB No. 57). GASB No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. This statement amends previous GASB statements on OPEB plans, and will improve the consistency of reporting for OPEB plans. This statement is effective for SMUD for 2012. SMUD has assessed the financial statement impact of adopting this statement, and its impact is not material.

In June 2010, GASB issued SGAS No. 59, **"*Financial Instruments Omnibus*"** (GASB No. 59). GASB No. 59 addresses topics relating to the reporting and disclosure of certain financial instruments and external investment pools, and includes some clarifications to SGAS No. 53, "***Accounting and Financial Reporting for Derivative Instruments***" (GASB No. 53). This statement was effective for SMUD for 2011. SMUD has assessed the financial statement impact of adopting this statement, and its impact is not material.

In November 2010, GASB issued SGAS No. 61, **"*The Financial Reporting Entity - Omnibus – An Amendment of GASB Statements No. 14 and No. 34*"** (GASB No. 61). GASB No. 61 modifies requirements for inclusion of component units and amends criteria for reporting of component units. This statement also clarifies the reporting of equity interests in legally separate organizations. This statement is effective for SMUD for 2013. SMUD is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In June 2011, GASB issued SGAS No. 64, **"*Derivative Instruments: Application of Hedge Accounting Termination Provisions, An Amendment of GASB Statement No. 53*"** (GASB No. 64). GASB No. 64 provides clarification of whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement is effective for SMUD for 2012. SMUD has assessed the financial statement impact of adopting this statement, and its impact is not material.

In March 2012, GASB issued SGAS No. 65, **"*Items Previously Reported as Assets and Liabilities*"** (GASB No. 65). GASB No. 65 establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities as deferred outflows or deferred inflows of resources, or as outflows or inflows of resources. This statement also limits the use of the term deferred in financial statement presentations. This statement is effective for SMUD for 2013. SMUD is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In March 2012, GASB issued SGAS No. 66 "***Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62***" (GASB No. 66). GASB No. 66 requires governments to base their decisions about fund type classification on the nature of the activity to be reported. This statement also modifies the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This statement is effective for SMUD for 2013. SMUD is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In June 2012, GASB issued SGAS No. 68 "***Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27***" (GASB No. 68). The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for SMUD for 2015. SMUD is currently assessing the financial statement impact of adopting this statement.

NOTE 3. ACCOUNTING CHANGE

In December 2010, GASB issued GASB No. 62, which incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. This statement also supersedes SGAS No. 20, "***Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting***" which eliminates the election for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. This statement would have been effective for SMUD for 2012, but SMUD early implemented the standard for 2011. SMUD has assessed the financial statement impact of adopting this statement, and its impact is not material.

In June 2011, GASB issued SGAS No. 63, "***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***" (GASB No. 63). GASB No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). GASB 63 provides guidance on reporting deferred inflows and outflows of resources. This statement will standardize the presentation of deferred inflows and outflows of resources and their effect on a government's net position.

Deferred outflows of resources are defined as the consumption of net assets in one period that are applicable to future periods and deferred inflows of resources are the acquisition of net assets that are applicable to future reporting periods. The components of net position are classified as investments in capital assets – net of related debt, restricted, and unrestricted. Unrestricted indicates the funds are available for operations, while restricted funds are the result of bond covenants, Board action, or other commitments.

The statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities, and to reflect the residual measure in the statement of financial position as net position, rather than net assets. This statement is effective for SMUD for 2012. SMUD has reformatted its Consolidated Balance Sheets to reflect the new presentation and terminology required by this statement. Major changes include renaming the Consolidated Balance Sheets to Consolidated Statements of Net Position and the Consolidated Statements of Revenues, Expenses and Changes in Net Assets to the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Former calculations of net asset classifications have been modified to present the components of Net Position.

NOTE 4. UTILITY PLANT

The summarized activity of SMUD's utility plant during 2012 is presented below:

	Balance December 31, 2011	Additions	Transfers and Deletions	Balance December 31, 2012
		(thousands of dollars)		
Nondepreciable Utility Plant:				
Land	$ 116,221	$ 830	$ -0-	$ 117,051
CWIP	417,819	266,020	(349,351)	334,488
Total nondepreciable utility plant	534,040	266,850	(349,351)	451,539
Depreciable Utility Plant:				
Generation	1,439,938	202,713	(12,890)	1,629,761
Transmission	270,705	17,889	(604)	287,990
Distribution	1,831,281	83,850	(75,783)	1,839,348
Investment in gas properties	200,730	4,221	-0-	204,951
Investment in JPAs	12,770	330	-0-	13,100
Intangibles	191,338	19,023	158	210,519
General	684,931	24,556	(5,999)	703,488
	4,631,693	352,582	(95,118)	4,889,157
Less: accumulated depreciation and depletion	(1,912,978)	(179,994)	96,759	(1,996,213)
Less: accumulated amortization on JPAs	(4,461)	(313)	-0-	(4,774)
	(1,917,439)	(180,307)	96,759	(2,000,987)
Total depreciable plant	2,714,254	172,275	1,641	2,888,170
Total Utility Plant - net	$ 3,248,294	$ 439,125	$ (347,710)	$ 3,339,709

The summarized activity of SMUD's utility plant during 2011 is presented below:

	Balance December 31, 2011	Additions	Transfers and Deletions	Balance December 31, 2012
		(thousands of dollars)		
Nondepreciable Utility Plant:				
Land	$ 115,197	$ 1,026	$ (2)	$ 116,221
CWIP	254,064	415,454	(251,699)	417,819
Total nondepreciable utility plant	369,261	416,480	(251,701)	534,040
Depreciable Utility Plant:				
Generation	1,434,299	5,775	(136)	1,439,938
Transmission	236,908	35,341	(1,544)	270,705
Distribution	1,670,777	165,743	(5,239)	1,831,281
Investment in gas properties	192,612	8,118	-0-	200,730
Investment in JPAs	11,801	969	-0-	12,770
Intangibles	179,605	13,431	(1,698)	191,338
General	664,487	29,283	(8,839)	684,931
	4,390,489	258,660	(17,456)	4,631,693
Less: accumulated depreciation and depletion	(1,751,386)	(181,247)	19,655	(1,912,978)
Less: accumulated amortization on JPAs	(4,148)	(313)	-0-	(4,461)
	(1,755,534)	(181,560)	19,655	(1,917,439)
Total depreciable plant	2,634,955	77,100	2,199	2,714,254
Total Utility Plant - net	$ 3,004,216	$ 493,580	$ (249,502)	$ 3,248,294

NOTE 5. INVESTMENT IN JOINT POWERS AGENCY

TANC. SMUD and fourteen other California municipal utilities are members of TANC, a JPA. TANC, along with the other California municipal utilities, own and operate the California-Oregon Transmission Project (COTP), a 500-kilovolt transmission line between central California and southern Oregon. SMUD is obligated to pay approximately 30.0 percent of TANC's COTP debt service and operations costs in exchange for entitlement to approximately 419 megawatts (MW) of TANC's 1,390 MW transfer capability. Additionally, SMUD has a 48 MW share of TANC's 300 MW firm, bi-directional transmission over Pacific Gas and Electric's (PG&E) system between PG&E's Tesla and Midway substations (SOT).

In December 2009, SMUD entered into a long-term reallocation agreement with TANC and the City of Santa Clara. Effective January 2010 through 2013, SMUD has an additional 30 MW, which makes SMUD's entitlement a 78 MW share of the SOT.

The long-term debt of TANC, which totals $370.6 million (unaudited) at December 31, 2012, is collateralized by a pledge and assignment of net revenues of TANC supported by take-or-pay commitments of SMUD and other members. Should other members default on their obligations to TANC, SMUD would be required to make additional payments to cover a portion of such defaulted payments, up to 25 percent of its current obligation.

Copies of the TANC annual financial reports may be obtained from SMUD at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

SMUD recorded transmission expenses related to TANC of $17.9 million and $18.3 million in 2012 and 2011, respectively.

Summary financial information for TANC is presented below:

	December 31,	
	2012 (Unaudited)	2011 (Unaudited)
	(thousands of dollars)	
Total assets	$ 450,348	$ 463,090
Total liabilities	$ 438,985	$ 451,810
Total net position	11,363	11,280
Total liabilities and net position	$ 450,348	$ 463,090
Changes in net position for the six months ended December 31	$ 5,836	$ 8,842

Balancing Authority of Northern California (BANC). SMUD, City of Redding, City of Roseville and Modesto Irrigation District formed BANC, as a JPA, in 2009. In 2011, Operational Control of Balancing Authority (BA) operations was transferred from SMUD to BANC. In addition, in August of 2012, under the direction of the BANC Commission, a General Manager was hired. BANC performs FERC approved BA reliability functions that are managed by North American Electric Reliability Corporation (NERC), nationally, and by Western Electricity Coordinating Council functions (WECC) in the west.

Copies of the BANC annual financial reports may be obtained from SMUD at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

SMUD recorded expenses related to BANC of $0.7 million in 2012 and $0.4 million in 2011.

Summary financial information for BANC is presented below:

	December 31, 2012 (Unaudited)	December 31, 2011 (Audited)
	(thousands of dollars)	
Total assets	$ 304	$ 159
Total liabilities	$ 304	$ 159
Total net position	-0-	-0-
Total liabilities and net position	$ 304	$ 159
Changes in net position for the year ended December 31	$ -0-	$ -0-

NOTE 6. COMPONENT UNITS

CVFA Carson Cogeneration Project. CVFA is a JPA formed by SMUD and the Sacramento Regional County Sanitation District. CVFA operates the Carson Project, a 65 MW (net) natural gas-fired cogeneration facility and a 43 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the CVFA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and CVFA.

SCA Procter & Gamble Cogeneration Project. SCA is a JPA formed by SMUD and the SFA. SCA operates the Procter & Gamble Project, a 136 MW (net) natural gas-fired cogeneration facility and a 50 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the SCA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and SCA.

SFA Cosumnes Power Plant Project. SFA is a JPA formed by SMUD and the Modesto Irrigation District. SFA operates the Cosumnes Power Plant Project (CPP Project), a 501 MW (net) natural gas-fired, combined cycle facility. The revenue stream to pay the SFA bonds' debt service is provided by a take and pay power purchase agreement between SMUD and SFA.

SPA Campbell Soup Cogeneration Project. SPA is a JPA formed by SMUD and the SFA. SPA operates the Campbell Soup Project, a 160 MW (net) natural gas-fired cogeneration facility, and the McClellan Project, a 72 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the SPA bonds' debt service is provided by a take and pay power purchase agreement between SMUD and SPA.

NCGA. NCGA is a JPA formed by SMUD and the SFA. NCGA has a prepaid gas contract with Morgan Stanley Capital Group (MSCG) expiring in 2027, which is financed primarily by NCGA revenue bonds. SMUD has contracted with NCGA to purchase all of the gas delivered by MSCG to NCGA, based on market prices. NCGA is obligated to pay the principal and interest on the bonds. Neither SMUD nor SFA is obligated to make debt service payments on the bonds. NCGA can terminate the prepaid gas contract under certain circumstances, including a failure by MSCG to meet its gas delivery obligation to NCGA or a drop in MSCG's credit rating below a specified level. If this occurs, MSCG will be required to make a termination payment to NCGA based on the unamortized prepayment proceeds received by MSCG.

As described in Note 2, all of the activities and balances of the component units are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. Copies of CVFA's, SCA's, SFA's, SPA's and NCGA's annual financial reports may be obtained from their Executive Office at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

NOTE 7. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. SMUD's investment policy is governed by the California State and Municipal Codes and its Indenture, which allow SMUD's investments to include: obligations which are unconditionally guaranteed by the United States (U.S.) Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase agreements; corporate notes; and taxable government and tax-exempt money market portfolios. SMUD's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

Credit Risk. To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, SMUD limits investments to those rated, at a minimum, "A-1" or equivalent for commercial paper and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

Custodial Credit Risk. This is the risk that, in the event of the failure of a depository financial institution or counterparty to a transaction, SMUD's deposits may not be returned or SMUD will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. SMUD does not have a deposit policy for custodial credit risk.

On November 9, 2010, the Federal Deposit Insurance Corporation (FDIC) issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which will provide unlimited insurance coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions. This unlimited insurance coverage was temporary and remained in effect until December 31, 2012.

Due to this temporary program, all of SMUD's commercial cash deposits were fully insured at December 31, 2011. As of December 31, 2012, $8.3 million of deposits were uninsured. The bank balance is also, per a depository pledge agreement between SMUD and SMUD's bank, collateralized at 829 percent and 133 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by FDIC) at December 31, 2012 and 2011, respectively. At December 31, 2012, SMUD had money market mutual funds accounts of $111.9 million which were uninsured. SMUD's investments and money market mutual funds are held in SMUD's name.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. SMUD places no limit on the amounts invested in any one issuer for repurchase agreements and federal agency securities. The following are the concentrations of risk greater than five percent in either year:

	December 31,	
Investment Type:	2012	2011
Federal National Mortgage Association (Fannie Mae)	9%	6%
Federal Home Loan Banks	11%	10%
Freddie Mac	3%	5%
Federal Farm Credit Bonds	7%	0%

Interest Rate Risk. This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Though SMUD has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following schedules indicate the credit and interest rate risk at December 31, 2012 and 2011. The credit ratings listed are from Standard & Poors (S&P). (N/A is defined as not applicable to the rating disclosure requirements).

At December 31, 2012, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturities (in years) Less Than 1	1-5	More than 5	Total Fair Value
		(thousands of dollars)			
Cash and Cash Equivalents:					
Cash	Not Rated	$ 3,616	$ -0-	$ -0-	$ 3,616
LAIF	Not Rated	337,341	-0-	-0-	337,341
Money Market Mutual Funds	AAAm/N/A	111,906	-0-	-0-	111,906
Commercial Paper	A-1+/A-1	15,385	-0-	-0-	15,385
Total cash and cash equivalents		468,248	-0-	-0-	468,248
Investments:					
Fannie Mae	AA+	-0-	65,314	-0-	65,314
Federal Farm Credit Bonds	AA+	-0-	50,091	-0-	50,091
Federal Home Loan Banks	AA+	-0-	81,964	-0-	81,964
Freddie Mac	AA+	-0-	21,079	-0-	21,079
US Treasuries	N/A	50,124	-0-	-0-	50,124
Discount Commercial Paper	AA+	14,981	-0-	-0-	14,981
Total investments		65,105	218,448	-0-	283,553
Total cash, cash equivalents, and investments		$ 533,353	$ 218,448	$ -0-	$ 751,801

At December 31, 2011, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturities (in years) Less Than 1	1-5	More than 5	Total Fair Value
		(thousands of dollars)			
Cash and Cash Equivalents:					
LAIF	Not Rated	$ 302,373	$ -0-	$ -0-	$ 302,373
Money Market Mutual Funds	AAAm/N/A	91,231	-0-	-0-	91,231
Money Market Deposit Account	A-1+	35,000	-0-	-0-	35,000
Commercial Paper	A-1	14,719	-0-	-0-	14,719
Total cash and cash equivalents		443,323	-0-	-0-	443,323
Investments:					
Fannie Mae	AA+	-0-	35,282	-0-	35,282
Federal Farm Credit Bonds	AA+	-0-	20,044	-0-	20,044
Federal Home Loan Banks	AA+	42,878	14,656	-0-	57,534
Freddie Mac	AA+	24,980	5,995	-0-	30,975
Total investments		67,858	75,977	-0-	143,835
Total cash, cash equivalents, and investments		$ 511,181	$ 75,977	$ -0-	$ 587,158

SMUD's cash, cash equivalents, and investments are classified in the Consolidated Statements of Net Position as follows:

	December 31,	
	2012	2011
	(thousands of dollars)	
Total Cash, Cash Equivalents, and Investments:		
Revenue bond reserve, debt service and construction funds:		
Revenue bond reserve fund	$ 20,859	$ 30,984
Debt service fund	51,707	42,717
Component unit bond reserve and construction funds	136,978	128,240
Total revenue bond reserve, debt service and construction funds	209,544	201,941
Nuclear decommissioning trust fund	31,077	30,890
Rate stabilization fund	86,231	91,964
Escrow fund	300	-0-
Other restricted funds	654	654
Unrestricted funds	423,995	261,709
Total cash, cash equivalents, and investments	$ 751,801	$ 587,158

NOTE 8. REGULATORY DEFERRALS

The Board has taken various regulatory actions that result in differences between the recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized in the tables below. Changes to these balances, and their inclusion in rates, occur only at the direction of the Board.

Regulatory Assets (Costs)

Decommissioning. SMUD's regulatory asset relating to the unfunded portion of its decommissioning liability is being collected through interest earnings on the Trust Fund. Nuclear fuel storage costs and non-radiological decommissioning costs have been collected in rates since 2009.

TANC Operations Costs. SMUD's regulatory asset relating to deferred TANC costs comprises the difference between its cash payments made to TANC and its share of TANC's accrual-based costs of operations. This regulatory asset is being collected in rates over the life of TANC's assets during the period that cash payments to TANC exceed TANC's accrual-based costs.

U.S. Bureau of Reclamation. In December 2004, SMUD established a regulatory asset to defer recognizing the expense related to the U.S. Bureau of Reclamation (Bureau). This regulatory asset will be collected in rates over the period SMUD is committed to making rate payments to the Bureau.

Derivative Financial Instruments. SMUD's regulatory costs and/or credits relating to Investment Derivative Instruments are intended to defer the net difference between the fair value of derivative instruments and their cost basis, if any. Investment Derivative Instruments are reflected in rates at contract cost and as such, the balance is charged or credited into rates as the related asset or liability is utilized (see Note 9).

Pollution Remediation. With the adoption of the 2010 Budget Resolution, SMUD established a regulatory asset to defer recognition of the expense related to the investigation, design and remediation necessary for the North City Substation site. SMUD has recorded a liability for the full $12.0 million estimated for the project. A portion of this regulatory asset, $6.0 million, was collected in rates in 2011 and the remaining $6.0 million was collected in 2012.

SMUD's total regulatory costs for future recovery are presented below:

	December 31,	
	2012	2011
	(thousands of dollars)	
Regulatory Costs for Future Recovery:		
Decommissioning	$ 143,300	$ 142,011
TANC operations costs	9,185	9,497
U.S. Bureau of Reclamation	6,576	6,180
Derivative financial instruments	52,029	59,595
Pollution remediation	-0-	6,000
Total regulatory costs	211,090	223,283
Less: regulatory costs to be recovered within one year	(16,363)	(20,856)
Total regulatory costs for future recovery - net	$ 194,727	$ 202,427

Regulatory Liabilities (Credits)

CIAC. In 2012 and 2011 SMUD added CIAC totaling $13.0 million and $9.7 million, respectively, to Regulatory Credits in the Consolidated Statements of Net Position and recorded $9.4 million and $9.3 million of amortization, respectively, to Other Income - Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. SMUD's regulatory credit relating to CIAC is intended to offset the revenue and expense associated with this accounting treatment. Thus, this regulatory credit is being amortized into rates over the depreciable lives of the related assets in order to offset the earnings effect of these non-exchange transactions.

Rate Stabilization. SMUD's regulatory credit relating to Rate Stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) transfers on an event driven basis. In 2012, $0.6 million was transferred from revenue to the RSF as a result of higher than budgeted energy deliveries from Western Area Power Administration (Western).

Hydro Rate Stabilization. The Hydro Generation Adjustment (HGA) mechanism will automatically adjust rates in April each year based on the precipitation results from the previous April 1 through March 31. The increase or decrease in rates will be limited to a maximum rate change of four percent. The HGA also established a Hydro Rate Stabilization Fund (HRSF). In 2012, $6.4 million was transferred from the HRSF to revenue as a result of below average precipitation.

AB-32. In 2012, SMUD participated in the first carbon allowance auction under AB-32, the Global Warming Solutions Act (see Note 2). In 2012, the Board authorized the deferral of AB-32 auction proceeds to match the revenue recognition with the related expenses. The difference between the auction proceeds received and the funds spent on AB-32 programs will be deferred into future years. In 2012, SMUD spent less than it collected in AB-32 revenues, and has recorded a regulatory credit.

Grant Revenues. In 2009, SMUD was awarded several large grants under the ARRA, which provided large amounts of reimbursements for capital expenditures. In 2010, the Board authorized the deferral of grant income for capital expenditures as regulatory liabilities. Thus, this regulatory credit will be deferred to match the depreciable lives of the related capital assets in order to offset the earnings effect of these non-exchange transactions.

Precipitation Hedges. Settlements of Precipitation Agreements are included in rates in the year settled and accordingly, the intrinsic value of open precipitation hedges is deferred as regulatory assets or liabilities.

Senate Bill 1. SMUD implemented a per kilowatt hour solar surcharge, effective January 1, 2008 in order to fund investments in solar required by Senate Bill 1 (SB-1). The difference between the surcharge revenues received and the funds spent on solar initiatives will be deferred into future years. In 2012, SMUD spent more than it collected in SB-1 revenues, and has reduced the regulatory credit.

SMUD's total regulatory credits for future revenue recognition are presented below:

	December 31,	
	2012	2011
	(thousands of dollars)	
Regulatory Credits for Future Revenue Recognition:		
CIAC	$ 230,971	$ 227,440
Rate stabilization	52,224	51,593
Hydro rate stabilization	34,008	40,371
AB-32 Deferral	4,551	-0-
Grant revenues	74,867	59,080
Precipitation hedge	-0-	6,352
SB-1	2,981	6,222
Total regulatory credits for future revenue recognition	399,602	391,058
Less: regulatory credits to be recognized within one year	(17,233)	(18,474)
Total regulatory credits – net	$ 382,369	$ 372,584

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

To help provide stable electric rates and to meet the forecasted power needs of its retail customers reliably, SMUD enters into various physical and financial fixed price purchase contracts for electricity and natural gas. These fixed price contracts and swap agreements are intended to hedge the exposure due to highly volatile commodity prices. SMUD also enters into interest rate swap agreements to reduce interest rate risk, or to enhance the relationship between the risk and return regarding SMUD's assets or debt obligations. SMUD utilizes these derivative financial instruments to mitigate its exposure to certain market risks associated with ongoing operations. SMUD has established policies prohibiting the use of derivative financial instruments for speculative purposes. These contracts are evaluated pursuant to GASB No. 53 to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures.

SMUD applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, the increase or (decrease) in the fair value of a hedge is reported as a Deferred Inflow or Deferred Outflow on the Consolidated Statements of Net Position. Derivatives that do not meet the effectiveness tests, that would be recorded on the Consolidated Statements of Revenues, Expenses and Changes in Net Position, are deferred for rate-making purposes as regulatory assets or liabilities on the Consolidated Statements of Net Position (see Note 8).

SMUD implemented GASB No. 53 in 2010. During 2012 and 2011, SMUD executed numerous new gas and power related purchase agreements, some of which are recorded as hedging or investment derivatives and are therefore included in the table below. All hedging or investment derivatives are recorded at fair value on the Consolidated Statements of Net Position.

For electricity and gas derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by an independent external pricing service. When external quoted market prices are not available for derivative contracts, SMUD uses an internally developed valuation model utilizing short term observable inputs. For interest rate derivatives, SMUD subscribes to a financial information service that it uses to verify fair value estimates obtained from its counterparties.

The following is a summary of the fair values, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2012 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2012 Changes in Fair Value		Fair Value at December 31, 2012		
	Current Amount	NonCurrent Amount	Current Amount	NonCurrent Amount	Notional
Cash Flow Hedges:					
(thousands of dollars)					
(thousands of Dekatherms (Dth))					
Asset: Investment Derivative Instruments					
Gas – Commodity	$ (634)	$ 35	$ -0-	$ 35-	645 Dth
Gas – Storage	(105)	-0-	19	-0-	75 Dth
Total Investment Derivative Instruments:	$ (739)	$ 35	$ 19	$ 35	
Asset: Hedging Derivative Instruments					
Gas – Commodity	$ (591)	$ 853	$ -0-	$ 853	12,330 Dth
Gas – Storage	429	(74)	535	-0-	1,537 Dth
Interest Rate	424	1,121	3,758	39,457	$131,030
Total Hedging Derivative Instruments:	$ 262	$ 1,900	$ 4,293	$ 40,310	
Liability: Investment Derivative Instruments					
Gas – Transportation...........	$ 7	$ -0-	$ 7	$ -0-	225 Dth
Gas – Commodity	(1,069)	4,290	11,031	333	6,287 Dth
Gas – Storage	206	-0-	6	-0-	148 Dth
Interest Rate	100	4,737	5,192	35,513	$380,995
Total Investment Derivative Instruments:	$ (756)	$ 9,027	$ 16,236	$ 35,846	
Liability: Hedging Derivative Instruments					
Gas – Basis	$ (10)	$ -0-	$ 85	$ -0-	1,980 Dth
Gas – Transportation...........	224	-0-	88	-0-	3,825 Dth
Gas – Commodity	36,077	57,504	81,185	82,899	106,796 Dth
Gas – Storage	103	-0-	10	-0-	903 Dth
Total Hedging Derivative Instruments:	$ 36,394	$ 57,504	$ 81,368	$ 82,899	

The following is a summary of the fair values, changes in fair value and notional amounts of derivative instruments outstanding at December 31, 2011 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2011 Changes in Fair Value		Fair Value at December 31, 2011		
	Current Amount	NonCurrent Amount	Current Amount	NonCurrent Amount	Notional
Cash Flow Hedges: (thousands of dollars) (thousands of Dth)					
Asset: Investment Derivative Instruments					
Gas – Basis	$ (695)	$ -0-	$ -0-	$ -0-	
Gas – Commodity	634	-0-	634	-0-	620 Dth
Gas – Storage	(86)	-0-	124	-0-	155 Dth
Total Investment Derivative Instruments:	$ (147)	$ -0-	$ 758	$ -0-	
Asset: Hedging Derivative Instruments					
Gas – Basis	$ (9,068)	$ -0-	$ -0-	$ -0-	
Gas – Commodity	591	-0-	591	-0-	420 Dth
Gas – Storage	(1,846)	74	106	74	1,351 Dth
Interest Rate	1,122	10,682	3,334	38,336	$131,030
Total Hedging Derivative Instruments:	$ (9,201)	$ 10,756	$ 4,031	$ 38,410	
Liability: Investment Derivative Instruments					
Gas – Transportation	$ (14)	$ -0-	$ 14	$ -0-	228 Dth
Gas – Commodity	14,859	7,211	9,962	4,623	4,770 Dth
Gas – Storage	(135)	-0-	212	-0-	1,364 Dth
Interest Rate	(1,114)	(8,381)	5,292	40,250	$380,995
Total Investment Derivative Instruments:	$ 13,596	$ (1,170)	$ 15,480	$ 44,873	
Liability: Hedging Derivative Instruments					
Gas – Basis	$ (74)	$ -0-	$ 74	$ -0-	2,002 Dth
Gas – Transportation	(312)	-0-	312	-0-	3,777 Dth
Gas – Commodity	(2,444)	315	117,262	140,404	115,303 Dth
Gas – Storage	23	-0-	113	-0-	1,419 Dth
Electric - Commodity	2,832	-0-	-0-	-0-	
Total Hedging Derivative Instruments:	$ 25	$ 315	$ 117,761	$ 140,404	

Objective and terms of hedging derivative instruments. The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2012 are summarized in the table below. The table is aggregated by the trading strategy. Credit ratings of SMUD's counterparties can be found in the table under Credit Risk. Details of SMUD's interest rate derivative instruments can be found in Note 10.

	Notional Amount	Beginning Date	Ending Date	Minimum Price	Maximum Price
Gas – Basis	1,980	01/01/13	03/31/13	$ (0.25)	$ (0.25)
Gas – Commodity	126,058	01/01/08	12/31/22	3.36	7.65
Gas – Storage	2,663	01/01/13	04/30/13	0.32	4.32
Gas – Transportation	4,050	01/01/13	03/31/13	(0.08)	0.05

The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2011 are summarized in the table below. The table is aggregated by the trading strategy.

	Notional Amount	Beginning Date	Ending Date	Minimum Price	Maximum Price
Gas – Basis	2,002	01/01/12	03/31/12	$ (0.21)	$ (0.16)
Gas – Commodity	121,113	01/01/08	12/31/22	3.94	8.92
Gas – Storage	4,289	01/01/12	01/31/13	0.01	4.68
Gas – Transportation	4,005	01/01/12	03/31/12	0.00	0.15

SMUD hedges its interest costs. The interest rate swaps are designed to synthetically fix the cash flows associated with variable rate bonds (see Note 10).

SMUD hedges its power and natural gas costs so that it can offer predictable rates to its retail electric customers and support its credit rating. SMUD maintains a risk management program to control the price, credit, and operational risks arising from its power and natural gas market activities. Under the program, authorized SMUD employees assemble a portfolio of swaps, futures, and forward contracts over time with the goal of making SMUD's purchased power and fuel budget more predictable.

These hedged risks include those related to interest rate and commodity price fluctuations associated with certain forecasted transactions, including interest rate risk on long-term debt, and forward purchases of gas and electricity to meet load.

Derivatives not designated as hedging instruments.

Gas and Electric Contracts. SMUD utilizes certain gas swap and electric swap agreements under GASB No. 53 not designated as hedging derivative instruments to mitigate exposure to changes in the market price of natural gas and electricity. The fair value of each agreement, excluding the actual settlements to be paid or received as of the end of the period, is recorded in either Current or Noncurrent Assets, Investment Derivative Instruments on the Consolidated Statements of Net Position if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments on the Consolidated Statements of Net Position if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Consolidated Statements of Net Position. The actual settlement payable is recorded in Accounts Payable on the Consolidated Statements of Net Position, and the actual settlement receivable is recorded in Receivables – Net - Other on the Consolidated Statements of Net Position. The payments and receipts of the actual settlement are recorded as Investment Expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Interest Rate Contracts. SMUD utilizes certain interest rate swap agreements not designated as hedging derivative instruments under GASB No. 53 to mitigate exposure to changes in the fair value of variable rate debt resulting from fluctuations in interest rates. The fair value of each agreement, excluding the balance of interest to be paid or received as of the end of the period, is recorded in either Current or Noncurrent Assets, Investment Derivative Instruments on the Consolidated Statements of Net Position if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments on the Consolidated Statements of Net Position if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Consolidated Statements of Net Position. The interest receivable is recorded in Receivables – Net - Other on the Consolidated Statements of Net Position, and the accrued interest is recorded in Interest Payable on the Consolidated Statements of Net Position. The payments or receipts of the actual settlement are recorded as Investment Expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

The Board has deferred recognition of the effects of reporting the fair value of Investment Derivative Instruments for rate-making purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments (see Note 8). Market values may have changed significantly since December 31, 2012.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of SMUD's interest rate swaps. SMUD is exposed to interest rate risk on its interest rate swaps, as London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA) swap index decreases, SMUD's net payment on the swap increases.

Basis risk. Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. SMUD is exposed to basis risk when it hedges its natural gas purchases, which are priced at various locations, with NYMEX futures contracts, which settle based on the price in Henry Hub, Louisiana. SMUD enters into basis swaps to hedge against this risk.

Termination risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, credit events upon merger, and other events. One aspect of termination risk is that SMUD would lose the hedging benefit of a derivative that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark to market value of the derivative was a liability to SMUD, SMUD could be required to pay that amount to the counterparty. Termination risk is associated with all of SMUD's derivatives up to the fair value amounts.

Credit Risk. Credit risk is the risk of loss resulting when the counterparty is unable or unwilling to fulfill its present and future financial obligations. SMUD can be exposed to significant counterparty credit risk on all of its derivative Instruments. SMUD seeks to minimize credit risk by transacting with creditworthy counterparties. SMUD has established and maintained strict counterparty credit guidelines. SMUD continuously monitors counterparty credit risk, and utilizes numerous counterparties to diversify the exposure to potential defaults. Under certain conditions as outlined in SMUD's credit risk management policy, SMUD may require additional credit support under its trading agreements.

Some of SMUD's derivative master agreements contain credit contingent provisions that enable SMUD to maintain unsecured credit as a result of positive investment quality credit ratings from each of the major credit rating agencies. If SMUD's debt were to be downgraded, there could be a step-down in SMUD's unsecured credit thresholds, and SMUD's counterparties would require additional collateral. If SMUD's debt were to go down below investment grade, SMUD's unsecured credit thresholds would be reduced to zero, and counterparties to the derivative instruments would demand ongoing full collateralization on derivative instruments in net out of the money positions.

The counterparty's current credit rating at December 31, 2012 is shown in the table below. The credit ratings listed are from S&P or Moody's:

Counterparty	Counterparty Credit Rating
Gas Contracts:	
Barclays Bank PLC	A2
Bank of Montreal	A
BNP Paribas Energy Trading GP.	AA-
Citigroup Energy	Baa2
Conoco Phillips Company	A
Deutsche Bank AG	A2
EDF Trading North America LLC	A-
J.P. Morgan Ventures Energy Corp.	A+
Macquarie Bank Limited	A
Merrill Lynch Commodities, Inc	A-
Morgan Stanley Capital Group, Inc	Baa1
Powerex Corp.	A2
Shell Energy North America (US), L.P.	A2
Interest Rate Contracts:	
Goldman Sachs Capital Markets, L.P.	A-
Goldman Sachs Mitsui Marine Derivative Products L.P.	AA+
Morgan Stanley Capital Services, Inc	A-

NOTE 10. LONG-TERM DEBT

SMUD's total long-term debt is presented below:

	December 31, 2012	December 31, 2011
	(thousands of dollars)	
Electric Revenue Bonds:		
Electric revenue bonds, 1.5%-6.5%, 1993-2036	$ 1,943,130	$ 2,022,995
Subordinated electric revenue bonds, index rates, 2008-2041	347,850	197,850
Total electric revenue bonds	2,290,980	2,220,845
Component unit project revenue bonds, 2.25%-5.50%, 2005-2030	423,915	447,520
Gas supply prepayment bonds index rates, 2007-2027	386,655	408,630
Total long-term debt outstanding	3,101,550	3,076,995
Bond premiums - net	109,065	103,972
Deferred losses on bond refundings - net	(60,920)	(65,512)
Total long-term debt	3,149,695	3,115,455
Less: amounts due within one year	(119,210)	(102,520)
Total long-term debt - net	$ 3,030,485	$ 3,012,935

The summarized activity of SMUD's long-term debt during 2012 is presented below:

	December 31, 2011	Additions	Payments or Amortization	December 31, 2012	Amounts Due Within One Year
	(thousands of dollars)				
Electric revenue bonds	$ 2,022,995	$196,945	$ (276,810)	$ 1,943,130	$ 72,795
Subordinate electric revenue bonds	197,850	150,000	-0-	347,850	-0-
Component unit project revenue bonds	447,520	-0-	(23,605)	423,915	24,620
Gas supply prepayment bonds	408,630	-0-	(21,975)	386,655	21,795
Total	3,076,995	346,945	(322,390)	3,101,550	$ 119,210
Unamortized premiums - net	103,972	28,888	(23,795)	109,065	
Deferred losses on bond refundings - net	(65,512)	(6,896)	11,488	(60,920)	
Total long-term debt	$ 3,115,455	$368,937	$ (334,697)	$ 3,149,695	

The summarized activity of SMUD's long-term debt during 2011 is presented below:

	December 31, 2010	Additions	Payments or Amortization	December 31, 2011	Amounts Due Within One Year
			(thousands of dollars)		
Electric revenue bonds	$ 2,143,690	$325,550	$ (446,245)	$ 2,022,995	$ 56,940
Subordinate electric revenue bonds	197,850	-0-	-0-	197,850	-0-
Component unit project revenue bonds	470,310	-0-	(22,790)	447,520	23,605
Gas supply prepayment bonds	431,000	-0-	(22,370)	408,630	21,975
Total	3,242,850	325,550	(491,405)	3,076,995	$ 102,520
Unamortized premiums - net	76,386	42,326	(14,740)	103,972	
Deferred losses on bond refundings - net	(62,854)	(15,609)	12,951	(65,512)	
Total long-term debt	$ 3,256,382	$ 352,267	$ (493,194)	$ 3,115,455	

At December 31, 2012 scheduled annual principal maturities and interest are as follows:

	Principal	Interest	Total
		(thousands of dollars)	
2013	$ 119,210	$ 137,902	$ 257,112
2014	135,850	132,532	268,382
2015	139,400	126,741	266,141
2016	146,500	120,812	267,312
2017	154,695	114,018	268,713
2018 – 2022 (combined)	828,690	466,797	1,295,487
2023 – 2027 (combined)	772,620	300,516	1,073,136
2028 – 2032 (combined)	428,075	152,700	580,775
2033 – 2037 (combined)	349,410	40,807	390,217
2038 – 2042 (combined)	27,100	57	27,157
Total Requirements	$ 3,101,550	$ 1,592,882	$ 4,694,432

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates, variable rate debt covered by interest rate swaps at their fixed rate, and variable rate debt not covered by interest rate swaps using the debt interest rate of 0.10 percent , 0.11 percent and 0.16 percent in effect at December 31, 2012 for the issues.

The following bonds have been issued and are outstanding at December 31, 2012:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/12
Electric Revenue Bonds:					
9/15/1993	1993 Series G Bonds	9/1/2021	3.0% - 6.5%	$ 141,100,000	$ 7,535,000
6/15/1997	1997 Series K Bonds	7/1/2024	5.7% - 5.9%	131,030,000	131,030,000
7/15/2003	2003 Series R Bonds	8/15/2028	2.5% - 5.0%	481,275,000	169,050,000
8/19/2003	2003 Series S Bonds	11/15/2020	5.0% - 6.0%	331,170,000	92,510,000
5/26/2004	2004 Series T Bonds	5/15/2030	2.5% - 5.25%	130,950,000	53,965,000
6/09/2008	2008 Series U Bonds	6/15/2028	3.0% - 5.0%	521,730,000	521,730,000
5/15/2009	2009 Series V Bonds	5/15/2036	6.322%	200,000,000	200,000,000
7/29/2010	2010 Series W Bonds	5/15/2036	6.16%	250,000,000	250,000,000
10/4/2011	2011 Series X Bonds	8/15/2028	1.5% - 5.0%	325,550,000	320,365,000
5/31/2012	2012 Series Y Bonds	8/15/2033	3.0% - 5.0%	196,945,000	196,945,000
JPA Electric Revenue Bonds					
8/19/2009	2009 CVFA Bonds	7/1/2020	2.25% - 5.25%	$ 48,920,000	$ 37,305,000
8/19/2009	2009 SCA Bonds	7/1/2021	4.0% - 5.25%	57,530,000	49,240,000
1/19/2006	2006 SFA Bonds	7/1/2030	3.25% - 5.25%	300,375,000	251,955,000
4/20/2005	2005 SPA Bonds	7/1/2022	3.25% - 5.5%	122,960,000	85,415,000
5/31/2007	2007B NCGA#1 Bonds	7/1/2027	Index Rate	668,470,000	386,655,000
Subordinated Electric Revenue Bonds					
8/14/2008	2008 Series J Bonds	8/15/2028	Index Rate	$ 120,000,000	$ 120,000,000
8/14/2008	2008 Series K Bonds	8/15/2028	Index Rate	77,850,000	77,850,000
2/29/2012	2012 Series L Bonds	8/15/2041	Index Rate	75,000,000	75,000,000
2/29/2012	2012 Series M Bonds	8/15/2041	Index Rate	75,000,000	75,000,000

2012 Bond Refundings and Redemptions. In May 2012, SMUD issued $196.9 million of 2012 Series Y Electric Revenue Refunding Bonds. Proceeds from the 2012 bonds and $10.0 million of available funds were used to refund $219.9 million of the outstanding 2002, 2003, and 2004 revenue bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt in the Consolidated Statements of Net Position. The refunding resulted in the recognition of a deferred accounting loss of $6.9 million, which is being amortized over the life of the refunding issue. The 2012 refunding reduced future aggregate debt service payments by $36.3 million and resulted in a total economic gain of $21.5 million, which is the net present value of the difference between the old and new debt service payments.

2011 Bond Refundings and Redemptions. In October 2011, SMUD issued $325.6 million of 2011 Series X Electric Revenue Refunding Bonds. Proceeds from the 2011 bonds and $22.6 million of available funds were used to refund $373.9 million of the outstanding 2001, 2002 and 2003 revenue bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt in the Consolidated Statements of Net Position. The refunding resulted in the recognition of a deferred accounting loss of $15.6 million, which is being amortized over the life of the refunding issue. The 2011 refunding reduced future aggregate debt service payments by $70.2 million and resulted in a total economic gain of $37.3 million, which is the net present value of the difference between the old and new debt service payments.

In August 2011, SMUD redeemed $17.6 million of SMUD 2001 Series O & P Bonds. This bond redemption resulted in a current accounting loss of $59 thousand, which is included in Loss on Debt Extinguishment and Refundings in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Redeeming the bonds reduced the aggregate future debt service payments by $18.9 million.

Interest Rate Swap Agreements. A summary of SMUD's three interest rate swap agreements are as follows. The credit ratings listed are from S&P:

Initial Notional Amount (thousands)	SMUD Pays	Fixed Rate	Floating Rate	Termination Date	Counterparty Credit Rating
$ 131,030	Variable	5.154%	SIFMA	07/01/24	A-
269,095	Fixed	4.345%	70% of LIBOR	08/15/18	AA+
111,900	Fixed	2.894%	63% of LIBOR	08/15/28	A-

SMUD has a fixed-to-variable interest rate swap agreement with an initial notional amount of $131.0 million, which is equivalent to the principal amount of SMUD's 1997 Series K Electric Revenue Bonds. Under this swap agreement, SMUD pays a variable rate equivalent to the SIFMA Index (0.13 percent at December 31, 2012) and receives fixed rate payments of 5.154 percent. In connection with the swap agreement, SMUD has a put option agreement, also with an initial notional amount of $131.0 million, which gives the counterparty the right to sell to SMUD, at par, either the 1997 Series K Bonds, or a portfolio of securities sufficient to defease the 1997 Series K Bonds. The exercise of the option terminates the swap at no cost to SMUD. The term of both the swap and the put is equal to the maturity of the 1997 Series K Bonds.

Additionally, SMUD has two variable-to-fixed interest rate swap agreements with a combined initial notional amount of $381.0 million originally entered into for the purpose of fixing the effective interest rate associated with certain of its subordinated bonds that were refunded during 2008. The notional values of the two swaps are amortized over the life of the respective swap agreements. SMUD can terminate all swap agreements at any time, with payment or receipt of the fair market value of the swaps as of the date of termination. The obligations of SMUD under the swap agreements are not secured by a pledge of revenues of SMUD's electric system or any other property of SMUD.

Component Unit Interest Rate Swap Agreements. NCGA has four interest rate swap agreements, which are summarized as follows. The credit ratings listed are from S&P:

Initial Notional Amount (thousands)	NCGA Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating
$ 43,770	Fixed	3.851%	67% of LIBOR +.45%	07/01/13	A-
100,385	Fixed	4.062%	67% of LIBOR +.60%	07/01/17	A-
65,865	Fixed	4.144%	67% of LIBOR +.63%	07/01/19	A-
458,450	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A-

NCGA has four variable-to-fixed interest rate swap agreements with a counterparty for the purpose of fixing the effective interest rate associated with the 2007 Series B Bonds. NCGA pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three month LIBOR (0.31 percent at December 31, 2012) plus an interest rate spread, as specified in each swap agreement. The total notional amount of the four swaps at December 31, 2012 was $386.7 million and was equivalent to the outstanding principal balance on the NCGA Bonds. The swaps are amortized over the life of their respective swap agreements in a manner corresponding to the principal repayment schedule of the NCGA Bonds. Early termination of the swaps would occur upon termination of the prepaid agreement for any reason. Upon early termination, the swaps would have no value to either party.

Subordinated Electric Revenue Bonds. Payment of and interest on the Subordinated Electric Revenue Bonds is subordinate to the payment of the principal and interest on SMUD's Electric Revenue Bonds.

Variable Rate Bonds. SMUD's Variable Rate Bonds bear interest at weekly rates, ranging from 0.10 percent to 0.16 percent at December 31, 2012. SMUD can elect to change the interest rate period or fix the interest rate, with certain limitations. SMUD's Variable Rate Bonds can be put to SMUD's Trustee by the bondholders; however, SMUD has in place a reimbursement agreement with Bank of America to enable SMUD to pay off the bonds over five years if the bonds are put. Accordingly, SMUD has recorded such bonds as Long-Term Debt, less amounts scheduled for redemption within one year.

Component Unit Bonds. The component units of SMUD have each issued bonds to finance their respective projects. The revenue stream to pay the SPA, NCGA and SFA bonds' debt service is provided by a take and pay purchase agreement. Principal and interest associated with these bonds are paid solely from the component units' revenues and receipts collected in connection with the operation of the projects. Most operating revenues earned by the component units are collected from SMUD in connection with the sale of gas or electricity to SMUD. The ability to service debt for SPA and SFA is dependent upon the successful availability of operations, and for NCGA is dependent on various parties (particularly MSCG, as gas supplier) meeting their contractual obligations. The ability of SCA and CVFA to service their debt is not dependent upon the successful operation of the project, as SMUD is required, under a "take-or-pay" contract to make payments sufficient to pay principal and interest and all other payments required to be made under CVFA and SCA's indenture of trust, regardless of the continued successful operation of the Project.

Callable Bonds. SMUD has $797.9 million of Electric System Revenue Bonds that are currently callable, $450.0 million of which are fixed rate Build America Bonds debt and $347.9 million of subordinate Variable Rate Demand Notes (VRDN's). SMUD also has $1,109.7 million of bonds that become callable from 2013 through 2021, and these bonds can be called until maturity.

Collateral. The principal and interest on SMUD's bonds are payable exclusively from, and are collateralized by a pledge of, the net revenues of SMUD's electric system. Neither the credit nor the taxing power of SMUD is pledged to the payment of the bonds and the general fund of SMUD is not liable for the payment thereof.

Covenants. SMUD's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios, certain other financial ratios, stipulated minimum funding of revenue bond reserves, and various other requirements including a rate covenant to raise rates to maintain minimum debt service coverage.

SMUD has pledged future net electric revenues, component unit net project revenues, and net gas supply prepayment revenues to repay, in electric revenue, component unit project revenue, and gas supply prepayment revenue bonds issued from 1993 through 2012. Proceeds from the bonds provided financing for various capital improvement projects, component unit capital projects, and the prepayment of a twenty-year supply of natural gas. The bonds are payable solely from the net revenues generated by SMUD's electrical sales, component unit project revenues, and gas supply prepayment revenues and are payable through 2036 at December 31, 2012.

GASB Statement No. 48, ***"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"***, disclosures for pledged revenues are as follows:

	December 31, 2012	December 31, 2011
	(thousands of dollars)	
Pledged future revenues	$ 3,102	$ 3,077
Principal and interest payments for the year ended	$ 119	$ 251
Total net revenues for the year ended	$ 951	$ 948
Total remaining principal and interest to be paid	$ 4,694	$ 4,820
Annual principal and interest payments as a percent of net revenues For the year ended	25%	26%

NOTE 11. COMMERCIAL PAPER NOTES

SMUD issues Commercial Paper Notes (Notes) to finance or reimburse capital expenditures. At December 31, 2012 and 2011 Notes outstanding totaled $200.0 million. The effective interest rate for the Notes outstanding at December 31, 2012 was 0.2 percent and the average term was 76 days. SMUD has a $204.9 million letter of credit agreement, and there have not been any term advances under it.

The summarized activity of SMUD's Notes during 2012 and 2011 is presented below:

	Balance at beginning of Year	Additions	Reductions	Balance at end of Year
	(thousands of dollars)			
December 31, 2012	$ 200,000	$ -0-	$ -0-	$ 200,000
December 31, 2011	$ 200,000	$ -0-	$ -0-	$ 200,000

NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

Investments. The fair values of investments, including cash equivalents, are based upon quoted market prices.

Long-Term Debt. The fair value of Long-Term Debt, which includes the short-term portion, was calculated for all fixed rate debt by determining the present value of each individual maturity's cash flow using a discount rate from a representative yield curve. All yield curves were obtained from Bloomberg, L.P. or calculated using linear interpolation from data obtained from the Bloomberg yield curves. With the exception of SMUD's Build America Bonds (BABS) both insured and uninsured SMUD debt was valued using the yield curve for “A” rated municipal power bonds. SMUD’s rating is higher than the bond insurers and therefore the yield curve for insured municipal bonds was not used for insured SMUD debt. SMUD’s BABS bonds are “A+” rated and therefore use the “A” rated BABS yield curve, the closest and conservative yield curve available. Both SCA and CVFA bonds were valued at the yield curve for “A” rated municipal power bonds. For the same reasons, the yield curve for “BBB” rated municipal power bonds was used for insured component unit bonds of SPA and SFA. The SMUD 2008 Series J and K, the SMUD 2012 Series L and M, and the NCGA 2007B bonds are included in the fair value total at par as they are variable rate obligations.

Interest Rate Swap and Put Agreements. The fair values of interest rate swap and put agreements are based on values provided by counterparties.

Gas and Electricity Related Derivatives. The fair values of gas and electricity price swap agreements and electricity option agreements are based on forward prices from established indexes for the applicable regions. The fair values of gas and electricity purchase agreements are based on forward prices from established indexes from applicable regions and discounted using established interest rate indexes.

Asset Retirement Obligation. SMUD values its ARO for Rancho Seco based on significant unobservable inputs (Level 3). During 2012, the ARO was updated to reflect new information and revise the estimated costs. The information used to develop the inputs was a combination of actual historical costs and published data with contingencies to account for uncertainties in future costs. There was no change in the methodology used from the prior estimate.

The estimated fair values of SMUD's financial instruments are presented below. Of the items listed below, all are required to be recorded at fair market value except for the long-term debt. Market values may have changed significantly since December 31, 2012.

	December 31, 2012	
	Recorded Value	Fair Value
	(thousands of dollars)	
Investments, including cash and cash equivalents	$ 751,801	$ 751,801
Long-term debt	(3,101,550)	(3,571,833)
Interest rate swap and put agreements - net	2,510	2,510
Gas and electricity related derivatives - net	(174,202)	(174,202)
Asset Retirement Obligation	(169,980)	(169,980)

	December 31, 2011	
	Recorded Value	Fair Value
	(thousands of dollars)	
Investments, including cash and cash equivalents	$ 587,158	$ 587,158
Long-term debt	(3,076,995)	(3,447,083)
Interest rate swap and put agreements - net	(3,872)	(3,872)
Gas and electricity related derivatives - net	(271,447)	(271,447)
Asset Retirement Obligation	(168,633)	(168,633)

NOTE 13. RANCHO SECO DECOMMISSIONING LIABILITY

Background. The Rancho Seco decommissioning liability relates to the nuclear decommissioning of the former 913 MW nuclear power plant, which terminated commercial operations in 1989. Nuclear decommissioning is the process of safely removing nuclear facilities from service and reducing residual radioactivity to a level that permits termination of the Nuclear Regulatory Commission (NRC) license, and release of the property for unrestricted use. The NRC has approved SMUD's decommissioning plan, which delineates a phased process, and the first phase of physical work was completed in 2008.

In 2009, the NRC released all of the land under the Part 50 license for unrestricted use with the exception of the 1 acre fenced area around the Interim Onsite Storage Building that houses the stored class B and C wastes. This waste will be stored for an unspecified period pending availability of appropriate disposal sites. The facility operating license will be terminated after the waste is removed.

The Department of Energy (DOE), under the Nuclear Waste Policy Act of 1982, is responsible for permanent disposal of spent nuclear fuel and high-level radioactive waste. SMUD has a contract with the DOE for the removal and disposal of spent nuclear fuel and high-level (greater than class "C": GTCC) radioactive waste. However, the date when fuel and GTCC waste removal will be complete is uncertain. In 2010, the DOE formally withdrew the application for licensing of Yucca Mountain as a high-level waste repository, essentially removing Yucca Mountain as an option for disposal of SMUD's used nuclear fuel. The DOE also announced in January 2010 the creation of a Blue Ribbon Commission to study alternatives for developing a repository for the nation's used nuclear fuel. The Commission provided a final report on alternatives in January 2012, and the next phase of the process will be for Congress and the President of the United States to consider the recommendations. At this time, there is no credible information available to determine when the DOE would remove the used nuclear fuel from the Rancho Seco facility. SMUD maintains a separately licensed on-site independent spent fuel storage facility (Storage Facility) which stores all of SMUD's spent fuel and GTCC waste in sealed canisters. The Storage Facility will remain under the regulation of the NRC until the nuclear fuel and GTCC radioactive waste are removed and the site is decommissioned.

Asset Retirement Obligations. These financial statements reflect SMUD's current estimate of its obligation for the cost of decommissioning (including the cost of managing the Storage Facility until it can be decommissioned) under the requirements of FASB ASC 410, based on studies completed each year. Each year, SMUD evaluates the estimate of costs of decommissioning and there was a slight increase in cost in the 2012 study. The ARO estimate assumes all spent nuclear fuel will be removed from the site by 2028.

Rancho Seco's ARO is presented below:

	December 31,	
	2012	2011
	(thousands of dollars)	
Active decommissioning	$ 35,250	$ 33,847
Spent fuel management	134,730	134,786
Total ARO	$ 169,980	$ 168,633
Less: current portion	(6,300)	(4,935)
Total Non-current portion of ARO	$ 163,680	$ 163,698

The summarized activity of the Rancho Seco ARO during 2012 and 2011 are presented below. The annual adjustments include a savings computed as the difference between the fair value of the obligation as if the decommissioning activities were performed by a third party and the amount actually incurred by SMUD performing the decommissioning activities.

	December 31, 2012	December 31, 2011
	(thousands of dollars)	
ARO at beginning of year	$ 168,633	$ 160,492
Accretion	8,253	7,955
Expenditures	(3,553)	(3,867)
Change in Study	22	6,920
Annual adjustments	(3,375)	(2,867)
ARO at end of year	$ 169,980	$ 168,633

NOTE 14. PENSION PLANS

Defined Benefit Pension Plan. SMUD participates in the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and SMUD policies. The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employees years of credited service, age, and final compensation. Copies of PERS' annual financial report may be obtained from their Executive Office at 400 Q Street, Sacramento, California 95814.

Funding Policy. Participants are required to contribute approximately 7 percent of their annual covered salary. SMUD makes either the full or partial contributions required of SMUD employees on their behalf and for their account. SMUD is currently required to contribute 11.0 percent of payroll to the plan. The contribution requirements of plan members and SMUD are established and may be amended by PERS.

Annual Pension Cost. PERS payments made by SMUD in 2012 were $33.5 million. The Annual Pension Cost for 2012 was $32.0 million, and $0.5 million was paid by employees for purchase of additional service credits and $1.0 million was paid by employees for their contribution to PERS. Overall, SMUD paid $32.0 million, and employees paid $1.5 million. PERS payments made by SMUD in 2011 were $30.5 million. The Annual Pension Cost for 2011 was $30.0 million, and $0.5 million was paid by employees for purchase of additional service credits. Overall, SMUD paid $30.0 million, and employees paid $0.5 million. Contributions are determined by actuarial valuations, which are performed based on the entry age normal actuarial cost method. The contribution for the first half of 2012 was determined by PERS as part of the annual actuarial valuation as of June 30, 2010; the contribution for the second half of 2012 was determined by PERS as part of the annual actuarial valuation as of June 30, 2011. The actuarial assumptions included: (a) a 7.5 percent investment rate of return (net of administrative expenses) for 2012 and a 7.75 percent investment rate of return (net of administrative expenses) for 2011, (b) projected annual salary increases that vary by duration of service, and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) also included an inflation component of 3.0 percent. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over different periods. All changes in liability due to plan amendments, and changes in actuarial assumptions or methodology are amortized separately over a 20 year period. All gains or losses are amortized over a rolling 30 year period, with the exception of special gains and losses for fiscal years 2009-2010 through 2011-2012. These fiscal years gains and losses will be amortized over fixed and declining 30 year periods. If a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30 year amortization of the unfunded liability.

Three-year trend information for PERS is presented below:

Fiscal Year	Annual Pension Cost (APC) (thousands of dollars)	Percentage of APC Contribution
6/30/12	$ 32,064	100%
6/30/11	$ 30,217	100%
6/30/10	$ 28,617	100%

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the plan was 93.5 percent funded. The actuarial accrued liability for benefits was $1,634.2 million, and the actuarial value of assets was $1,528.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $105.9 million. The covered payroll (annual payroll of active employees covered by the plan) was $182.9 million, and the ratio of the UAAL to the covered payroll was 57.9 percent. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Other Plans. SMUD provides its employees with two cash deferred compensation plans: one pursuant to Internal Revenue Code (IRC) Section 401(k) [401(k) Plan] and one pursuant to IRC Section 457 (457 Plan) (collectively, the Plans). The Plans are contributory plans in which SMUD's employees contribute the funds. Each of SMUD's eligible full-time or permanent part-time employees may participate in either or both Plans, and amounts contributed are vested immediately. Such funds are held by a Trustee in trust for the employees upon retirement from SMUD service and, accordingly, are not subject to the general claims of SMUD's creditors. SMUD is responsible for ensuring compliance with IRC requirements concerning the Plans and has the duty of reasonable care in the selection of investment alternatives, but neither SMUD, nor its Board or officers have any liability for market variations in the Plans' asset values. SMUD employees are responsible for determining how their funds are to be invested and pay all ongoing fees related to the Plans. The Plans are currently not subject to discrimination testing, nor the requirements of the Employee Retirement Income Security Act of 1974. SMUD employees participating in the Plans are allowed to contribute a portion of their gross income not to exceed the annual dollar limits prescribed by the IRC.

SMUD makes annual contributions to the 401(k) Plan on behalf of certain employees pursuant to a memorandum of understanding with both of its collective bargaining units. SMUD does not match employee contributions, nor make contributions on behalf of its employees to the 457 Plan. Participating employees made contributions into the Plans totaling $16.0 million in 2012 and $15.1 million in 2011. SMUD made contributions into the Plans of $1.1 million in both 2012 and 2011.

NOTE 15. OTHER POSTEMPLOYMENT BENEFITS

SMUD provides postemployment healthcare benefits, in accordance with SMUD policy and negotiated agreements with employee representation groups in a single employer defined benefit plan, to all employees who retire from SMUD, and their dependents. SMUD also provides postemployment healthcare benefits to covered employees who are eligible for disability retirement. SMUD contributes the full cost of coverage for retirees hired before January 1, 1991, and a portion of the cost based on credited years of service for retirees hired after January 1, 1991. SMUD also contributes a portion of the costs of coverage for these retirees' dependents. Retirees are required to contribute the portion that is not paid by SMUD. The benefits, benefit levels, retiree contributions and employer contributions are governed by SMUD and can be amended by SMUD through its personnel manual and union contracts. At December 31, 2012, 3,034 postemployment participants, including retirees, spouses of retirees, surviving spouses, and eligible dependents, were eligible to participate in SMUD's healthcare benefits program.

OPEB arises from an exchange of salaries and benefits for employee services rendered, and refers to postemployment benefits other than pension benefits such as post employment healthcare benefits. SMUD considers the following benefits to be OPEB: Medical, Dental and Long-Term Disability.

Plan Description. SMUD is a member of the California Employers Retiree Benefit Trust (CERBT) for prefunding of OPEB obligations. The CERBT Fund is an IRC Section 115 Trust set up for the purpose of receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries. The plan is an agent multiple employer plan administered by PERS, which provides medical, dental and long-term disability benefits for retirees and their beneficiaries. Any changes to these benefits would be approved by SMUD's Board and union contracts. To obtain a CERBT report, please contact PERS at 888-CALPERS.

The funding of a plan occurs when the following events take place: the employer makes payments of benefits directly to or on behalf of a retiree or beneficiary; the employer makes premium payments to an insurer; or the employer irrevocably transfers assets to a trust or other third party acting in the role of trustee, where the plan assets are dedicated to the sole purpose of the payments of the plan benefits, and creditors of the government do not have access to those assets.

Funding Policy. SMUD has elected to net fund to PERS, so the contributions are the Annual Required Contribution (ARC) less the estimated cash flow for retiree benefit costs for each year. SMUD can elect to put in additional contributions into the trust, and in 2012 funded an additional $35.0 million to the CERBT, which consisted of $4.8 million related to the restated ARC, and $30.2 million in additional contributions. In 2012 and 2011, the net ARC contribution to the CERBT was $4.0 and $4.2 million, respectively. During 2012 and 2011, SMUD made the following healthcare benefit contributions by paying actual medical costs of $20.9 million and $19.5 million, respectively.

Funding Status and Funding Progress. At December 31, 2012 and 2011, SMUD estimates that the actuarially determined accumulated postemployment benefit obligation as of January 2011 was approximately $358.3 million. The plan was 12.0 percent funded. The covered payroll (annual payroll of active employees covered by the plan) was $168.7 million for 2011. The ratio of the UAAL to covered payroll was 186.9 percent for 2011.

Annual OPEB Cost. The annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of SGAS No. 45, "***Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions***". The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. For 2012, SMUD's annual OPEB Cost (expense) of $26.1 million was equal to the ARC.

The following table shows the components of SMUD's annual OPEB cost for the year, the amount actually paid in premiums, and changes in the net OPEB obligation:

	Year Ended December 31, 2012	Year Ended December 31, Restated* 2011
	(thousands of dollars)	
Annual required contribution	$ 26,123	$ 25,423
Interest on net OPEB obligation	-0-	-0-
Annual OPEB cost (expense)	26,123	25,423
Contributions made	(59,911)	(24,516)
Increase/(Decrease) in net OPEB obligation	(33,788)	907
Net OPEB (asset), beginning of year	(1,313)	(2,220)
Net OPEB (asset), end of year	$ (35,101)	$ (1,313)

*All amounts in 2011, except for contributions made, have been restated to match the revised Actuary report

SMUD's Net OPEB Obligation (asset) is recorded for 2012 as a component of Prepayments and other on the Consolidated Statements of Net Position.

SMUD's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years is as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB (Asset)
	(thousands of dollars)		
December 31, 2012	$26,123	229%	(35,101)
December 31, 2011*restated	$25,423	96%	(1,313)
December 31, 2010	$21,441	108%	(2,220)

*All amounts in 2011, except for contributions made, have been restated to match the revised Actuary report

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal was used in the December 31, 2012 and 2011 actuarial valuation. Actuarial assumptions used a 7.75 percent investment rate of return (net of administrative expenses), and a 3.25 percent inflation assumption. For 2012, the actuarial assumptions for an annual healthcare cost trend growth of 8.0 percent for the current year, 7.5 percent for 2013, 7.0 percent for 2014, and declining 0.5 percent per year until 5 percent is reached. The 5 percent growth is used on a go-forward basis. The UAAL will be amortized as a percentage of payroll over an open 30-year period. The actuarial value of assets was $43.1 million in 2012 and 2011, respectively

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 16. INSURANCE PROGRAMS AND CLAIMS

SMUD is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions, and natural disasters. In addition, SMUD is exposed to risks of loss due to injuries to, and illnesses of, its employees. SMUD carries commercial insurance coverage to cover most claims in excess of specific dollar thresholds, which range from $5 thousand to $2.5 million per claim with total excess liability insurance coverage for most claims of $120.0 million. SMUD’s property insurance coverage is based on the replacement value of the asset. There have been no significant reductions in insurance coverage, and in some cases, certain coverages increased in 2012. In 2012, 2011 and 2010, the insurance policies in effect have adequately covered all settlements of the claims against SMUD. No claims have exceeded the limits of property or liability insurance in any of the past three years.

The claims liability is included as a component of Self Insurance, Deferred Credits and Other in the Consolidated Statements of Net Position.

SMUD's total claims liability, comprising claims received and claims incurred but not reported, at December 31, 2012, 2011 and 2010 is presented below:

	2012	2011	2010
		(thousands of dollars)	
Workers' compensation claims	$ 9,352	$ 9,454	$ 11,338
General and auto claims	573	626	1,260
Short- and long-term disability claims	168	185	87
Claims liability	$ 10,093	$ 10,265	$ 12,685

Changes in SMUD's total claims liability during 2012, 2011, and 2010 is presented below:

	2012	2011	2010
		(thousands of dollars)	
Claims liability, beginning of year	$ 10,265	$ 12,685	$ 10,899
Add: provision for claims, current year	1,941	1,943	3,025
Increase in provision for claims in prior years	4,205	1,804	2,923
Less: payments on claims attributable to current & prior years	(6,318)	(6,167)	(4,162)
Claims liability, end of year	$ 10,093	$ 10,265	$ 12,685

NOTE 17. COMMITMENTS

Electric Power and Gas Supply Purchase Agreements. SMUD has numerous power purchase agreements with other power producers to purchase capacity, transmission, and associated energy to supply a portion of its load requirements. SMUD has minimum take-or-pay commitments for energy on some contracts. Certain contracts allow SMUD to exchange energy, received primarily in the summer months, when SMUD most needs the energy and to return energy during the winter months, or other subsequent periods. SMUD has numerous long-term natural gas supply, gas transportation and gas storage agreements with Canadian and U.S. companies to supply a portion of the consumption needs of SMUD's natural gas-fired power plants, which expire through 2040.

At December 31, 2012, the approximate minimum obligations for the take or pay contracts over the next five years are as follows:

	Electric	Gas
	(thousands of dollars)	
2013	$ 45,923	$ 16,018
2014	46,014	15,557
2015	34,303	13,802
2016	29,285	12,059
2017	29,285	10,207

At December 31, 2012, the approximate minimum obligations for the remaining contracts, assuming the energy or gas is delivered over the next five years, are as follows:

	Electric	Gas
	(thousands of dollars)	
2013	$ 145,675	$ 134,892
2014	145,756	137,651
2015	115,669	125,327
2016	107,489	123,059
2017	108,480	122,224

Contractual Commitments beyond 2017 – Electricity. Several of SMUD's purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2018 and 2033 and provide for power under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts ranges between $29.3 million in 2018 and $5.2 million in 2033. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the energy is delivered, ranges between $100.3 million in 2018 and $5.3 million in 2033. SMUD's largest purchase power source is the Western Base Resource contract, whereby SMUD receives 31.25 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 31.25 percent share of their revenue requirement. On January 1, 2015, SMUD's percentage share changes to approximately 25 percent. The Western contract expires on December 31, 2024.

Contractual Commitments beyond 2017 - Gas. Several of SMUD's natural gas supply, gas transportation and gas storage contracts extend beyond the five-year summary presented above. These contracts expire between 2018 and 2040 and provide for transportation and storage under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts ranges between $7.6 million in 2018 and $1.5 million in 2040. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the gas is delivered, ranges between $122.1 million in 2018 and $31.8 million in 2040.

Additional Contracts. SMUD has entered into one additional power contract that has been excluded from the table above due to an unknown start date. This contract is based on generation that has not been built and is expected online between 2013 and 2014. Because of the uncertainty of the start date, it has been excluded from the table above.

Solano Wind. In December 2011, SMUD entered into an agreement to sell the Solano Wind Phase 3 project (see Note 2). SMUD will buy all output from the plant under the terms of the Power Purchase Agreement. The plant began commercial operation in April 2012 and SMUD receives all output generated. Under the terms of the various agreements, SMUD has the option to buy the plant back at certain discrete future dates.

Gas Price Swap Agreements. SMUD has entered into numerous variable to fixed rate swaps with notional amounts totaling 131,595,000 dekatherms (Dth) for the purpose of fixing the rate on SMUD's natural gas purchases for its gas-fueled power plants and gas indexed electric contracts. These gas price swap agreements result in SMUD paying fixed rates ranging from $3.36 to $7.65 per Dth. The swap agreements expire periodically from January 2013 through December 2022.

Gas Transport Capacity Agreements. SMUD has numerous long-term natural gas transport capacity agreements with Canadian and U.S. companies to transport natural gas to SMUD's natural gas-fired power plants from the supply basins in Alberta to the California-Oregon border and from supply basins in the southwest and Rocky Mountains to the Southern California border. These gas transport capacity agreements provide for the delivery of gas into SMUD-owned pipeline capacity within California. The gas transport capacity agreements provide SMUD with 56,500 Dth per day (Dth/d) of natural gas pipeline capacity from the North, including the Canadian Basins through 2023 and 50,500 Dth/d from the Southwest or Rocky Mountain Basins through at least 2018.

Gas Storage Agreements. SMUD also has an agreement for the storage of up to 2.0 million Dth of natural gas at regional facilities through March 2014, dropping to 1.0 million Dth through March 2015.

NOTE 18. CLAIMS AND CONTINGENCIES

FERC Administrative Proceedings. SMUD is involved in a number of FERC administrative proceedings related to the deregulation of the California electric utility industry. While these proceedings are complex and numerous, they generally fall into three categories: (i) filings initiated by the California Independent System Operator (CAISO) (or other market participants) to adopt/modify the CAISO Tariff and/or establish market design and behavior rules; (ii) filings initiated by existing transmission owners (i.e. PG&E and the other Investor Owned Utilities (IOUs)) to pass-through CAISO related costs to their existing wholesale transmission customers; and (iii) filings initiated by FERC on market participants to establish market design and behavior rules or to complain about or investigate market behavior by certain market participants.

Replacement Reserves Dispute. In August 2003, PG&E issued invoices totaling $2.2 million for replacement reserve charges purportedly incurred by PG&E under the Restated Interim Agreement (RIA) for energy scheduled through the Rancho Seco intertie point from July 2000 through June 2002. In September 2003, SMUD provided PG&E notice of dispute of the invoices, arguing that the billing was inconsistent with the RIA, the primary agreement between the parties governing such transactions, and therefore, no replacement reserve charges are due. SMUD believes that these charges should be recovered under the TO Tariff. To the extent that PG&E recovers these replacement reserve charges under the TO Tariff, it may not recover them under the RIA. PG&E functioned as the Scheduling Coordinator on SMUD’s behalf for transactions with the CAISO at the Rancho Seco intertie point until June 2002, when SMUD became its own balancing authority. These replacement reserve charges purportedly relate to power purchased by the ISO to cover deviations between actual load and forecasted load.

SMUD believes that, even if the charges were appropriate, PG&E’s delay in billing within a reasonable timeframe compromised SMUD’s ability to modify its operations or scheduling procedures to eliminate or mitigate the charges.

In October 2003, SMUD and PG&E entered into a tolling agreement, which, among other things, tolled any applicable statute of limitations and may be terminated by either party upon thirty days written notice.

In early January 2013, PG&E confirmed it was ultimately able to recover the replacement reserve charges under the TO Tariff, and that therefore this issue is resolved.

In February 2013, SMUD sent a notice to PG&E terminating the tolling agreement and acknowledging that the matter is now closed. SMUD has not recorded a liability for this issue.

Construction Matters. SMUD contracts with various firms to design and construct facilities for SMUD. Currently, SMUD is party to various claims, legal actions and complaints relating to such construction projects. SMUD’s management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD’s financial position, liquidity or results of operations.

CPP Litigation (Fru-Con). In August 2003, SMUD entered into a fixed-price contract (Contract) for $106.8 million with Fru-Con to construct the 500 megawatt CPP Project. St. Paul Travelers Company, the successor surety to Travelers Casualty and Surety Company of America (Travelers), is obligated under a performance bond to guarantee Fru-Con's performance under the Contract. Construction of the CPP Project began in October 2003, with a scheduled commercial operation date of September 2005.

Soon after contract award, Fru-Con advanced change orders that would substantially raise the contract price and delay the CPP Project schedule. The parties agreed to three change orders raising the total contract price to approximately $108.1 million. However, in October 2004, Fru-Con asserted additional claims totaling almost $26 million. SMUD's management believed the claims were not substantiated and, given the delays in schedule up to that point, had significant concerns about Fru-Con's willingness or ability to complete construction of the CPP Project.

In December 2004 and January 2005, SMUD notified Fru-Con that it was in default of the Contract for failure to complete the work within the time specified in the Contract. SMUD also notified Travelers in January 2005 about Fru-Con's defaults.

In February 2005, SMUD terminated its contract with Fru-Con on the basis of Fru-Con's breach of contract, and took steps to complete the CPP Project. Under the Contract, Fru-Con and its surety, Travelers, are liable to SMUD for any additional costs attributable to Fru-Con's breach of contract, and for liquidated damages. SMUD filed suit in the Sacramento County Superior Court against Fru-Con, alleging breach of contract and violation of the California False Claims Act (State Court Action).

In March, 2005, Fru-Con filed a complaint against SMUD in federal court, alleging breach of contract (Federal Court Action) and attempted to move the State Court Action to federal court. In May, 2005, the federal court granted SMUD's motion to remand, and transferred the State Court Action back to the Sacramento County Superior Court.

SMUD also pursued a claim against Travelers under the performance bond. In September, 2005, Travelers denied SMUD's claim and filed a declaratory relief action in the same federal court as the Fru-Con Federal Court Action. SMUD filed a counterclaim in response to Travelers' lawsuit. In general, SMUD is seeking to recover from Travelers all of the damages it claims against Fru-Con plus attorneys' fees related to the Travelers suit. Fru-Con's federal case has been consolidated with the Travelers lawsuit for purposes of discovery.

In June 2007, the Sacramento County Superior Court issued a summary adjudication order upholding SMUD's right to terminate the contract based on Fru-Con's refusal to remove defective concrete, leaving for trial only the issue of the amount of damages owing by Fru-Con to SMUD. In September, 2007, the California Supreme Court denied Fru-Con's Petition for Review seeking to overturn the Court of Appeals decision, which had denied their petition to reverse the Superior Court order.

The Superior Court trial commenced in January, 2009. SMUD presented evidence at trial to support an award of $47.1 million net in damages, excluding interest and attorneys' fees, comprised of SMUD's cost to complete Fru-Con's scope of work ($38.8 million), contract liquidated damages ($8.2 million) and statutory damages for false claims ($153,000). This net total included offsets for Fru-Con's legitimate change order requests for out-of-scope work that Fru-Con actually performed prior to termination and the $7.8 million in retained funds held by SMUD. In contrast, Fru-Con presented evidence at trial that SMUD should not be awarded any damages, and instead that Fru-Con should be awarded roughly $45 million, inclusive of claims for extra work for change orders, delays and inefficiencies allegedly caused by SMUD, and attorneys' fees.

In April, 2009, after nearly three months in trial, the case was submitted to the jury. In June, 2009, the jury rendered a verdict awarding SMUD $42.2 million in damages, excluding interest and attorneys' fees ($35.6 million for cost to complete, $6.6 million in liquidated damages, and $10,000 for False Claims), and awarding Fru-Con $1.5 million for change orders.

Meanwhile in September, 2009, the Federal District Court issued a Stay Order. This Stay Order puts a hold on the federal trial pending the final resolution of the state court proceedings. In September, 2009, Fru-Con filed an appeal of the Stay Order to the Ninth Circuit Court of Appeals, followed by a similar appeal by Travelers. Fru-Con and Travelers also filed motions to expedite appeal and to consolidate. In October, 2009, the Ninth Circuit ordered the appeals consolidated, but denied Fru-Con's and Travelers' motions to expedite the appeal, retaining the regular briefing schedule. The court further ordered that no party can move for an extension of the briefing schedule and that the matter will be set as soon as possible after completion of briefing.

In December, 2009, following a hearing on motions for pre-judgment interest and attorneys' fees, the judge issued a Final Judgment on Verdict. In addition to the $42.2 million in damages, SMUD was awarded $13 million in pre-judgment interest through the date of judgment, and Fru-Con's net award was reduced to $1.2 million, which offsets against SMUD's award, resulting in a net total of approximately $54 million, plus costs to be submitted. The judge denied SMUD's request for attorneys' fees.

In January, 2010, Fru-Con and Travelers filed opening briefs, and in February, 2010, SMUD filed opposing briefs. In July, 2010, oral argument was heard before the Ninth Circuit panel. In August, 2010, the Ninth Circuit panel denied Fru-Con's and Travelers' appeal and upheld the Judge's Stay Order.

In February, 2010, Fru-Con filed a Notice of Appeal of the final judgment (and pre-judgment orders). SMUD cross-appealed the trial court's order denying SMUD's request for attorneys' fees.

In March, 2010, Travelers posted a statutory Appeal Bond on behalf of Fru-Con in the amount of $82.5 million. That same day, the appellate court ruled that the case was not suitable for mediation and set that date as the commencement date for scheduling the appeal.

In January, 2011, Fru-Con filed Appellant's opening brief, and in April, 2011, SMUD filed Respondent's brief and Cross-Appellant's opening brief (regarding entitlement to attorneys' fees). In August, 2011, Fru-Con filed Respondent's brief and Appellant's reply brief, and in September, 2011, SMUD filed its reply brief.

In July, 2012, the Court of Appeals affirmed the trial court's judgment awarding SMUD approximately $54 million plus costs and post-judgment interest. The Court of Appeals also denied SMUD's request for attorneys' fees. Fru-Con filed a request for rehearing with the Court of Appeals. The Court of Appeals issued an order modifying its original opinion providing clarification of its earlier order and affirming the judgment.

In August, 2012, Fru-Con filed a petition for review with the California Supreme Court. In September, 2012, SMUD filed its answer opposing the petition filed by Fru-Con. The Supreme Court subsequently denied the petition for review.

In October, 2012, SMUD received payment from Fru-Con of nearly $71 million in satisfaction of the state court judgment. See Note 2 for disposition of award.

With the State court litigation resolved, SMUD is considering whether or not to pursue attorneys' fees against Travelers in Federal Court or alternatively move to mutually dismiss the case. In any event, SMUD's management believes that the outcome of the federal matter will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

Environmental Matters. SMUD was one of many potentially responsible parties that had been named in a number of actions relating to environmental claims and/or complaints. SMUD has resolved these environmental claims and/or complaints and entered into settlement agreements and/or consent orders. These settlement agreements and consent orders have statutory reopener provisions which allow regulatory agencies to seek additional funds for environmental remediation under certain limited circumstances. While SMUD believes it is unlikely that any of the prior settlement agreements or consent orders will be reopened, the possibility exists. If any of the settlement agreements or consent orders is reopened, SMUD management does not believe that the outcome will have a material adverse impact on SMUD's financial position, liquidity or results of operations.

North City Remediation. In 1950, SMUD purchased property (North City Site) from the City of Sacramento and the Western Railroad Company. Portions of the North City Site prior to the sale had been operated as a municipal landfill by the City of Sacramento. SMUD currently operates a bulk substation on the North City Site. SMUD intends to assure compliance with State standards at closed landfill sites and is in the process of determining the appropriate remediation for the North City Site. In 2009, SMUD established a regulatory asset to defer recognition of the expense related to the investigation, design and remediation necessary for the North City Site, and has recorded a liability for the full $12.0 million estimated for the project. At December 31, 2012, the regulatory asset is fully amortized. See Note 8.

Former Community Linen Rental Services (Community) Property. In 1981, SMUD purchased property from Community located at 1824 and 1826 61st Street (Site). That same year, Community sold its linen business and equipment to Mission Laundry (Mission). SMUD continued to lease portions of the property to Mission until 1985. The property to the north of the Site was owned by Kramer Carton Company (Kramer) and used for 60 years as a carton manufacturing facility. In 2009, Kramer filed for bankruptcy protection from its creditors. The Kramer property was encumbered by a first and second deed of trust, where the second deed of trust was held by Willamette Capital Management, Ltd. (Willamette). Willamette purchased the note on the first deed of trust. In 2011, Willamette foreclosed on the Kramer property and now holds title to the Kramer property. Based on environmental investigations, it has been determined that there is contamination at the Kramer property, at the Site, and likely at areas south of the Kramer property. The source of the contamination is unknown. Preliminary environmental investigations of the Kramer property, the Site and areas south of the Kramer property indicate that total remediation costs may exceed $3.0 million. SMUD does not believe that it is the source of the contamination. Nonetheless, since Kramer is bankrupt and Willamette believes that it is exempt from liability under a secured creditor exemption, it is unclear whether SMUD may need to take legal action to protect its Site and interests. SMUD has estimated its exposure to such costs based on its proportionate share of the remedy. However, should others become unable to participate due to insolvency or otherwise unable to pay their entire share of the costs, SMUD's share of remediation costs would increase. SMUD's management does not believe this will occur. Even if SMUD were to ultimately be responsible for all remediation costs associated with the Site, SMUD's management believes that the remediation of the Site will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

Other Matters. Currently, SMUD is party to various claims, legal actions and complaints relating to its operations, including but not limited to: property damage and personal injury, contract disputes, torts, and employment matters. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Funding Progress

PERS Pension. The schedule of funding progress for PERS is presented below for the three most recent years for which SMUD has available data:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		(thousands of dollars)				
6/30/2011	$ 1,528,294	$1,634,178	$ 105,884	93.5%	$182,872	57.9%
6/30/2010	$ 1,469,218	$1,577,200	$ 107,982	93.2%	$ 185,018	58.4%
6/30/2009	$ 1,419,866	$1,531,728	$ 111,862	92.7%	$ 185,474	60.3%

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plan is presented below for the three recent years for which SMUD has available data:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		(thousands of dollars)				
1/1/2011 restated*	$ 43,095	$ 358,273	$ 315,178	12.0%	$ 168,670	187%
1/1/2010 restated*	$ 30,781	$ 326,660	$ 295,879	9.4%	$ 195,413	151%
1/1/2009	$ 16,570	$ 286,874	$ 270,304	5.8%	$ 197,772	137%

*All amounts in 2011 and 2010, except for contributions made, have been restated to match the revised Actuary report

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Unaudited Financial Statistics

SMUD Retail Energy Sales Forecast

Managed Monthly Megawatt Hours (MWh) by Rate Class

		Residential		Agric & Irrig	Small Commercial		Commercial Time-of-Use			Street & Traffic	Night Lighting	Total Sales (MWh)
Year	Month	Elec Heat	Std Heat		< 19 kW	20 - 299 kW	300 - 499 kW	500 - 999 kW	=> 1000 kW			
2014	1	143,416	298,769	1,985	52,103	168,549	47,461	53,942	150,054	6,519	311	923,108
	2	119,097	255,076	2,009	49,513	159,722	47,644	53,388	142,834	6,533	310	836,127
	3	92,514	234,672	2,244	45,224	153,514	46,529	52,069	143,441	6,538	310	777,055
	4	75,333	212,495	3,210	41,988	147,012	44,639	51,075	141,239	6,557	309	723,856
	5	71,040	221,126	5,193	42,972	156,027	46,426	52,821	139,955	6,570	309	742,438
	6	82,451	275,413	8,438	48,148	176,819	50,071	57,122	149,309	6,583	308	854,662
	7	102,414	364,021	10,978	53,591	195,202	53,020	59,841	157,039	6,587	308	1,003,000
	8	103,591	372,213	11,432	54,671	201,130	53,931	61,153	165,075	6,590	307	1,030,092
	9	99,665	353,628	9,981	54,853	201,061	56,400	61,959	161,076	6,600	306	1,005,527
	10	77,507	267,887	6,345	49,468	178,059	52,709	59,228	153,688	6,635	305	851,831
	11	77,410	226,043	3,426	45,013	152,763	47,933	54,125	147,049	6,643	305	760,710
	12	115,928	272,950	2,433	50,311	156,953	49,368	52,869	147,073	6,654	304	854,843
2015	1	140,852	295,717	1,978	52,419	169,632	47,828	54,281	155,439	6,648	303	925,095
	2	116,817	251,703	2,002	49,842	160,846	48,038	53,737	147,736	6,663	302	837,687
	3	90,144	230,305	2,236	45,480	154,461	46,875	52,367	148,172	6,668	302	777,010
	4	73,221	207,716	3,198	42,238	147,920	44,966	51,357	145,598	6,687	301	723,202
	5	68,883	215,403	5,174	43,235	157,019	46,732	53,081	144,457	6,700	301	740,984
	6	80,256	269,767	8,407	48,314	177,511	50,247	57,258	154,070	6,713	300	852,845
	7	100,181	358,948	10,938	53,769	195,969	53,195	59,962	162,049	6,718	299	1,002,029
	8	101,438	367,215	11,390	54,847	201,934	54,147	61,333	170,615	6,721	299	1,029,937
	9	97,784	349,902	9,944	55,248	202,637	56,914	62,398	166,733	6,731	298	1,008,589
	10	75,637	263,223	6,322	49,789	179,304	53,162	59,623	159,531	6,766	297	853,654
	11	75,589	221,843	3,414	45,303	153,757	48,300	54,445	152,062	6,775	297	761,784
	12	113,717	269,253	2,425	50,624	157,955	49,750	53,162	152,009	6,785	296	855,976

PRO FORMA CONSOLIDATED INCOME STATEMENT
2013 - 2015 ($ Millions)

	2013 BUDGET	2014 PROJECTION	2015 PROJECTION
OPERATING REVENUES:			
Net Billed Sales (Inc. EARP/MED Discounts)	1,287.7	1,234.5	1,230.1
Recommended Revenue Adjustment		31.0	62.0
Other Adjustments		(6.8)	(6.2)
= Net Sales	1,287.7	1,258.7	1,285.9
Other Revenue	20.7	17.2	16.2
Total Operating Revenues	1,308.4	1,275.9	1,302.1
OPERATING EXPENSES:			
Purchased Power (Net of Sales)	206.0	202.7	209.7
Fuel	313.1	243.6	257.5
Transmission Contracts			
Production	74.2	109.4	115.5
Transmission & distribution	112.9	124.8	127.5
Customer accounts	52.1	47.5	50.0
Customer services	41.4	35.3	31.8
Public Good Expenses	118.2	73.4	75.0
Admin & General Expenses	85.8	78.4	77.5
Total Operation & Maintenance	1,003.7	915.1	944.5
Provision for depreciation-SMUD & JPAs	174.2	173.3	178.0
Total Other Non-Cash	7.7	19.0	13.4
Total Operating Expenses	1,185.6	1,107.4	1,135.9
Net Operating Income	122.8	168.5	166.2
Total Other Income (Deduction)	26.7	15.5	14.4
Income before interest	149.5	184.0	180.6
INTEREST EXPENSE:			
Interest on Long-Term Debt	116.3	128.3	123.6
AFUDC - borrowed funds	(6.7)	(3.6)	(5.9)
Net Interest Charges	109.6	124.7	117.7
NET INCOME	39.9	59.3	62.9
Cash Available for Fixed Debt Service	351.5	391.3	382.0
Interest Payments for SMUD, JPAs	133.8	124.7	117.7
Principal Payments for SMUD, JPAs	98.0	127.2	129.4
Total Fixed Debt Service	231.8	251.9	247.1
Fixed Charge Coverage Ratio	1.52	1.55	1.55

SMUD PRO FORMA CASH FLOW STATEMENT
2012 - 2015 ($ Millions)

	2012 ACTUAL	2013 BUDGET	2014 PROJECTION	2015 PROJECTION
SOURCES OF CASH				
Net Income	160.0	39.9	59.3	62.9
Add Back:				
Depreciation Expense	165.5	174.2	192.3	191.4
Adjustments				
AFUDC	(8.5)	(6.7)	(3.6)	(5.9)
Other	155.7	10.3		
CASH FLOW FROM OPERATIONS	472.7	217.7	248.0	248.4
OTHER CASH INFLOWS				
Grant Receipts	47.0	8.0	4.0	4.0
Solano Proceeds	20.9			
Settlement Proceeds	34.4			
Issuance of Debt	375.8	150.0		
USES OF CASH				
Debt Principal Repayments	336.5	73.0	113.5	115.7
Other	255.5	26.4	2.6	2.2
Capital Expenditures	333.9	195.0	259.5	292.5
NET CASH FLOW	24.9	81.3	(123.6)	(158.0)
BEGINNING BALANCE UNRESTRICTED CASH	261.7	424.0	549.5	425.9
Change in Unrestricted Cash	137.4	44.2		
ENDING BALANCE UNRESTRICTED CASH	424.0	549.5	425.9	267.9

SMUD PRO FORMA CAPITAL EXPENDITURES
2013 - 2015 ($ Millions)

	2013 BUDGET	2014 PROJECTION	2015 PROJECTION
Energy Delivery	83.7	149.0	137.8
Energy Supply	48.9	38.1	62.6
Customer	2.1	11.4	11.2
Technology	20.9	19.7	25.9
Internal Services	38.9	41.3	55.0
TOTAL CAPITAL	194.5	259.5	292.5

SACRAMENTO MUNICIPAL UTILITY DISTRICT ANNUAL SALES DATA BY RATE SCHEDULE - 2011 UNAUDITED Agricultural, Commercial, Industrial, and Lighting Rate Classes						
		2011 MONTHLY			ESTIMATED UNBILLED	
	RATE	AVERAGE OF	BILLED THIS YEAR		DEC. 31, 2011	
Customer Class	CATEGORY	CUSTOMERS	KWH	REVENUE	KWH	REVENUE
AGRICULTURAL	AOD	3	185,336	31,366	11,898	2,994
	AON	5	93,061	10,534	2,634	346
	ASD	496	42,303,628	4,927,139	1,842,994	248,054
	ASN	1,858	18,132,195	2,382,410	556,006	78,560
	ASN-BH	1	10,880	(2,716)	0	0
	Various*	0	0	0	0	0
TOTAL AGRICULTURAL		**2,364**	**60,725,100**	**7,348,734**	**2,413,532**	**329,953**
SMALL COMMERCIAL	GFN	460	60,480	53,081	3,721	3,089
	GSN	50,507	588,111,530	79,414,026	33,358,524	4,453,108
	GSN_1	0	0	0	0	0
	GSN_2	0	0	0	0	0
	GSN_3	0	0	0	0	0
	GT4S1	0	0	0	0	0
	Various*	0	(41,977,000)	(2,303,909)	0	0
TOTAL SMALL COMMERCIAL		**50,966**	**546,195,010**	**77,163,198**	**33,362,245**	**4,456,197**
INDUSTRIAL	GSS_S	10,912	1,745,685,724	226,118,820	100,211,175	12,669,956
	GSS_S1	0	0	0	0	0
	GSS_S2	0	0	0	0	0
	GT4S2	0	0	0	0	0
	GUP_S	46	23,854,879	2,884,506	1,322,407	129,690
	GUS_S	1,058	852,293,744	99,605,939	54,378,050	5,241,063
	GUS_S1	0	0	0	0	0
	GUS_S2	0	0	0	0	0
	Sub-total	12,016	2,621,834,347	328,609,265	155,911,632	18,040,709
	GUP_M	16	29,277,200	3,251,095	2,188,252	196,638
	GUP_M1	0	0	0	0	0
	GUS_M	268	673,763,283	72,766,966	40,097,870	3,611,636
	GUS_M1	0	0	0	0	0
	GUS_M2	0	0	0	0	0
	GUT_M	5	2,961,875	445,173	182,933	27,396
	Sub-total	290	706,002,358	76,463,234	42,469,055	3,835,670
	GNT_04	1	43,871,340	4,590,042	4,058,002	381,023
	GDT_99	2	124,769,316	9,492,640	11,309,893	815,880
	GUP_L	33	386,601,335	37,513,264	28,517,000	2,481,602
	GUP_L1	0	0	0	0	0
	GUS_L	95	625,947,030	66,696,474	41,781,234	4,026,436
	GUS_L1	0	0	0	0	0
	GUS_L2	0	0	0	0	0
	GUT_L	21	544,114,053	49,886,753	49,473,323	4,129,215
	a) GUT_L19	1	2,093,769	675,226	358,760	76,437
	GUT_L2	0	0	0	0	0
	GUT_L99	1	44,096,550	3,412,590	3,306,930	252,884
	Various*	0	0	(763,935)	0	0
	Sub-total	154	1,771,493,393	171,503,053	138,805,142	12,163,477
TOTAL INDUSTRIAL		**12,459**	**5,099,330,098**	**576,575,552**	**337,185,829**	**34,039,856**
STREET LIGHTS	SL_CODM	42	785,602	97,242	22,558	2,849
	SL_COM	322	61,290,698	4,369,928	5,986,433	432,230
	SL_DOM	654	8,061,688	2,649,659	261,593	88,731
	SL_TSF	6	624,484	96,125	17,876	2,802
	Various*	0	0	(33,694)	0	0
TOTAL STREET LIGHTS		**1,025**	**70,762,472**	**7,179,260**	**6,288,460**	**526,612**
INTERSECTION LGHT	TS	1,666	6,531,406	651,621	462,433	46,003
	TS_F	56	78,945	9,223	3,313	402
	Various*	0	0	0	0	0
TOTAL INTERSECTION LIGHTS		**1,722**	**6,610,351**	**660,844**	**465,746**	**46,405**
TOTAL NIGHT LIGHTS	NLGT @	5,211	4,052,500	1,238,393	191,688	59,156

SACRAMENTO MUNICIPAL UTILITY DISTRICT
ANNUAL SALES DATA BY RATE SCHEDULE - 2011
UNAUDITED
Residential Customer Classes

Customer Class	RATE CATEGORY	2011 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR KWH	BILLED THIS YEAR REVENUE ($)	ESTIMATED UNBILLED - DEC. 31, 2011 KWH	ESTIMATED UNBILLED - DEC. 31, 2011 REVENUE ($)
Electric Heat	RSC	15,623	199,468,987	23,622,306	11,851,225	1,203,626
	RSC_E	1,761	19,252,974	1,477,665	1,162,609	76,684
	RSC_EL	114	1,568,030	103,470	100,987	5,751
	RSC_L	295	4,987,426	551,610	281,545	26,857
	RSE	71,642	621,199,884	79,735,369	36,987,198	4,516,541
	RSE_E	26,638	248,874,532	20,846,883	14,441,721	1,137,985
	RSE_EL	848	9,409,781	654,598	568,528	37,368
	RSE_L	501	6,743,507	796,347	383,893	42,878
	RSE_12	0	13,412	1,744	6	11
Time-of-Use	RTC	11	233,772	28,678	13,512	1,437
	RTE	91	1,630,005	205,301	67,240	7,193
	RTE5	6	212,305	25,616	16,416	1,803
	RTEV	5	9,048	789	837	66
	RTT	84	1,418,869	142,776	53,204	4,722
Electric Heat with Wells	RWC	1,978	37,752,388	4,463,133	2,798,606	285,045
	RWC_E	109	1,948,290	151,393	149,400	10,073
	RWC_EL	10	269,559	21,114	20,739	1,464
	RWC_L	46	1,069,623	120,192	83,561	8,609
	RWE	2,069	36,863,271	4,875,497	2,814,581	352,374
	RWE_E	261	5,281,086	479,096	398,253	34,092
	RWE_EL	12	287,092	25,870	25,892	2,304
	RWE_L	26	610,568	78,794	41,251	5,167
Electric Heat	***Sub-total***	***122,130***	***1,199,104,409***	***138,408,242***	***72,261,204***	***7,762,049***
Standard Heat	RSG	329,299	2,719,572,960	366,511,618	135,547,803	17,881,985
	RSG_11	0	(40)	(4)	0	-
	RSG_2	1	1,737	234	175	24
	RSG_E	68,907	533,946,692	46,727,004	26,748,976	2,289,567
	RSG_EL	2,251	21,989,489	1,600,459	1,149,700	79,617
	RSG_L	3,675	42,977,686	5,271,937	2,073,129	244,786
Time-of-Use	RTG	109	1,439,461	187,361	50,662	5,623
	RTG5	45	724,727	103,040	50,238	5,652
Standard Heat with Wells	RWG	3,300	45,099,913	6,017,798	3,139,761	410,016
	RWG_12	0	4,960	833	0	-
	RWG_E	316	4,352,102	385,473	302,969	26,392
	RWG_EL	15	214,043	15,893	15,952	1,275
	RWG_L	46	807,247	99,603	58,268	6,701
	Various*	0	0	(1,683,472)	0	-
Standard Heat	***Subtotal***	***407,965***	***3,371,130,977***	***425,237,778***	***169,137,633***	***20,951,639***
Master Metered	***RMHP***	***87***	***28,226,732***	***2,926,916***	***1,501,522***	***149,031***
TOTAL RESIDENTIAL		***530,182***	***4,598,462,118***	***566,572,936***	***242,900,359***	***28,862,719***
TOTAL ALL CLASSES		***598,717***	***10,386,137,649***	***1,236,738,918***	***622,807,859***	***68,320,897***

\# Customer count per Monthly General Ledger Balancing Report totals (SMUD properties excluded).

a) Co-gen account with Facilities and Minimum Charges.

@ Night Light customers not included in customer count.

* Manual adjustments to billings, unreconciled differences within SAP, and other adjustments.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
ANNUAL SALES DATA BY RATE SCHEDULE - 2012
UNAUDITED
Agricultural, Commercial, Industrial, and Lighting Rate Classes

CUSTOMER CLASS	RATE CATEGORY	2012 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR KWH	BILLED THIS YEAR REVENUE	ESTIMATED UNBILLED DEC. 31, 2012 KWH	ESTIMATED UNBILLED DEC. 31, 2012 REVENUE ($)
AGRICULTURAL	AOD	5	387,555	57,134	6,012	1,502
	AON	4	57,110	6,451	0	0
	ASD	514	50,009,267	5,711,253	2,044,989	267,034
	ASN	1,851	21,063,153	2,733,508	584,000	82,953
	ASN-BH	1	2,320	(12,351)	0	0
TOTAL AGRICULTURAL		**2,375**	**71,519,405**	**8,495,996**	**2,635,001**	**351,489**
SMALL COMMERCIAL	GFN	460	60,481	61,078	3,757	4,415
	GSN	4,743	120,004,488	15,875,309	406,638	52,586
	GSN_T	45,497	455,028,464	63,680,526	34,127,266	4,731,553
	Various*	0	(30,808,000)	(1,609,246)	0	0
TOTAL SMALL COMMERCIAL		**50,700**	**544,285,433**	**78,007,666**	**34,537,661**	**4,788,554**
INDUSTRIAL	GSS_S	2,046	472,400,498	60,036,998	4,130,906	518,598
	GSS_T	9,376	1,326,144,352	170,142,140	108,430,577	13,814,511
	GUP_S	52	21,749,494	2,760,489	1,616,928	160,171
	GUS_S	956	835,231,882	96,390,246	50,132,599	4,773,516
	Sub-total	12,429	2,655,526,226	329,329,873	164,311,010.00	19,266,796
	GUP_M	14	25,249,400	2,785,027	1,645,473	152,580
	GUS_M	267	641,284,051	69,219,923	40,782,756	3,680,071
	GUT_M	5	2,809,664	410,221	243,366	33,400
	Sub-total	287	669,343,115	72,415,171	42,671,595.00	3,866,051
	GDT_99	2	113,410,064	8,650,289	9,103,070	655,927
	GNT_04	1	41,687,982	3,982,034	4,091,249	382,169
	GUP_L	34	406,610,745	39,141,658	24,206,061	2,153,607
	GUS_L	93	614,504,529	65,370,128	47,785,209	4,587,049
	GUT_L	21	607,170,581	55,175,150	45,655,313	3,855,589
	a) GUT_L19	1	1,747,881	641,197	11,240	48,809
	GUT_L99	0	5,760,306	443,624	0	0
	Various*	0	0	(757,029)	0	0
	Sub-total	152	1,790,892,088	172,647,052	130,852,142	11,683,150
TOTAL INDUSTRIAL		**12,868**	**5,115,761,429**	**574,392,096**	**337,834,747**	**34,815,997**
STREET LIGHTS	SL_CODM	42	769,200	96,164	25,599	3,260
	SL_COM	319	64,973,182	4,657,927	2,096,316	155,661
	SL_COM_M	0	0	12	0	0
	SL_DOM	654	7,869,045	2,649,900	286,502	99,679
	SL_TSF	6	622,560	95,915	20,719	3,249
	Various*	0	0	8,729	0	0
TOTAL STREET LIGHTS		**1,020**	**74,233,987**	**7,508,646**	**2,429,136**	**261,849**
INTERSECTION LGHT	TS	1,687	6,512,669	651,960	458,024	45,504
	TS_F	55	78,456	9,155	3,178	391
	Various*	0	0	1,039	0	0
TOTAL INTERSECTION LIGHTS		**1,742**	**6,591,125**	**662,154**	**461,202**	**45,895**
TOTAL NIGHT LIGHTS	NLGT @	**5,085**	**3,959,903**	**1,215,173**	**190,663**	**58,819**

SACRAMENTO MUNICIPAL UTILITY DISTRICT
ANNUAL SALES DATA BY RATE SCHEDULE - 2012
UNAUDITED
Residential Customer Classes

CUSTOMER CLASS	RATE CATEGORY	2012 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR KWH	BILLED THIS YEAR REVENUE	ESTIMATED UNBILLED - DEC. 31, 2012 KWH	ESTIMATED UNBILLED - DEC. 31, 2012 REVENUE ($)
Electric Heat Legacy Rates	RSC	119	26,070,202	2,815,218	0	0
Discontinued in 2012	RSC_E	17	2,682,497	196,257	0	0
	RSC_EL	10	227,317	15,007	0	0
	RSC_L	2	626,997	65,326	0	0
	RSE	759	80,631,560	10,129,907	0	0
	RSE_E	266	32,796,400	2,764,387	0	0
	RSE_EL	0	1,265,246	95,796	0	0
Electric Heat	RSCH_SP	132	1,357,333	168,070	131,586	14,785
Including SmartPricing Pilots	RSEH	69,745	520,397,659	67,832,261	33,080,182	4,227,160
	RSEH_E	27,891	227,598,824	19,148,519	13,509,036	1,111,333
	RSEH_E_SP	357	2,916,537	242,170	256,062	20,880
	RSEH_EL	1,008	9,360,140	661,863	611,749	41,369
	RSEH_L	531	5,927,958	693,823	375,063	42,465
	RSEH_SP	567	4,306,573	553,261	416,282	52,465
	RSMM	81	25,930,315	2,710,541	1,541,485	160,560
Electric Heat Time-of-Use	RTC	7	81,579	9,048	0	0
	RTCH	4	151,639	19,871	13,774	1,542
	RTE	57	595,082	67,139	0	0
	RTE5	6	187,205	22,648	11,829	1,298
	RTEH	31	922,113	125,056	59,457	6,565
	RTEV	4	7,111	631	178	17
	RTEV4S	1	2,984	290	959	80
	RTT	78	1,248,502	133,628	105,168	10,287
Electric Heat Legacy with Wells	RWC	161	6,050,316	664,958	0	0
Discontinued in 2012	RWC_E	3	351,146	27,588	0	0
	RWC_EL	1	57,637	4,845	0	0
	RWC_L	4	179,166	19,678	0	0
	RWE	68	5,986,084	798,573	0	0
	RWE_E	8	856,560	83,148	0	0
	RWE_EL	3	57,763	6,294	0	0
Electric Heat with Wells	RWCH_EL	13	281,076	26,516	28,536	2,591
Including SmartPricing Pilots	RWEH	2,032	31,936,959	4,212,001	2,608,664	335,010
	RWEH_E	282	4,686,098	444,792	385,861	36,013
	RWEH_E_SI	7	90,301	7,180	11,428	848
	RWEH_EL	11	268,187	26,366	20,162	2,176
	RWEH_L	25	526,372	66,163	38,701	4,687
	RWEH_SP	29	431,053	56,802	61,007	7,950
Electric Heat	***Sub-total***	***122,708***	***1,206,973,149***	***139,533,092***	***67,237,599***	***7,611,790***
Standard Heat Legacy Rates	RSG	4,157	263,055,364	35,361,162	0	0
Discontinued in 2012	RSG_E	810	54,402,402	4,845,070	0	0
	RSG_EL	29	2,247,116	168,303	0	0
	RSG_L	46	4,078,517	499,832	0	0
Standard Heat	RSGH	318,000	2,428,124,839	330,664,385	132,429,869	17,604,981
Including SmartPricing Pilots	RSGH_E	73,101	532,772,952	47,394,647	28,197,216	2,410,899
	RSGH_E_SI	924	7,002,837	601,396	488,098	41,422
	RSGH_EL	2,667	23,716,797	1,783,091	1,323,366	91,258
	RSGH_L	3,863	39,646,207	4,890,365	2,131,192	249,851
	RSGH_SP	3,204	26,263,552	3,474,872	2,068,282	270,817
Standard Heat Time-of-Use	RTG	67	473,150	56,242	0	0
	RTG5	57	901,645	115,889	54,933	5,582
	RTGH	42	942,639	125,990	56,753	6,187
Standard Legacy Heat with Wells	RWG	117	6,132,610	819,856	0	0
Discontinued in 2012	RWG_E	7	618,327	59,225	0	0
	RWG_EL	1	29,809	2,752	0	0
	RWG_L	4	118,330	14,169	0	0
Standard Heat with Wells	RWGH	3,163	39,846,571	5,370,851	3,057,806	392,238
	RWGH_E	334	4,118,857	390,474	327,031	30,395
	RWGH_E_SI	5	62,500	6,188	3,532	290
	RWGH_EL	15	222,051	18,685	13,977	1,244
	RWGH_L	44	673,811	83,395	51,431	5,661
	RWGH_SP	40	493,045	62,708	53,036	6,516
Standard Heat	***Subtotal***	***410,695***	***3,435,943,928***	***434,647,103***	***170,256,522***	***21,117,341***
Master-metered Residential	RMHP	7	2,726,396	269,668	0	0
TOTAL RESIDENTIAL		**533,410**	**4,645,643,473**	**574,449,862**	**237,494,121**	**28,729,131**
TOTAL ALL CLASSES		**602,115**	**10,461,994,755**	**1,244,731,594**	**615,582,531**	**69,051,734**

\# Customer count per Monthly General Ledger Balancing Report totals (SMUD properties excluded).
a) Co-gen account with Facilities and Minimum Charges.
@ Night Light customers not included in customer count.
* Manual adjustments to billings, unreconciled differences within SAP, and other adjustments.