Chief Executive Officer and General Manager's Report and Recommendation

on Rates and Services

April 2, 2015 • Volume 1

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Chief Executive Officer and General Manager's
Report and Recommendation on

Rates and Services

Volume 1

Residential, Agricultural, Commercial and Lighting Rate Changes
Miscellaneous Rate Changes

April 2, 2015

A Sacramento Municipal Utility District Publication

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

April 2, 2015

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1-888-742-SMUD (7683)

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Executive Summary

This Chief Executive Officer and General Manager's Report and Recommendation on Rates and Services ("Report") lists staff's proposed changes to SMUD rates for the periods beginning January 1, 2016 and January 1, 2017.

Staff proposes a two-step rate increase of 2.5% each year in both 2016 and 2017. The proposed rate increase would be applied equally to all customer classes. The additional revenue from the rate increase would offset increases in the operating budget resulting from higher costs of meeting state mandated renewable power targets, higher commodity costs, as well as increases in operation and maintenance expenses supporting customer programs and maintaining SMUD's electricity delivery system.

Staff also proposes a modification to the current optional residential time-of-use (TOU) rates. Staff recommends discontinuing two existing TOU rates, Option 1 (TOU1) and Option 2 (TOU2). Both continue to have very low enrollment, approximately 300 customers in total. In addition, staff recommends discontinuing the RTEV and RTEV4S plug-in electric vehicle (PEV) rates. These rates would be replaced by a new optional residential time-of-use (RTOU) rate that better aligns prices with cost-of-service. The proposed rate design moves SMUD closer to a framework that is consistent with the development of future RTOU rate designs.

The characteristics of the proposed RTOU rate are more attractive than the existing TOU1 and TOU2 rates, having only three prices: year round peak and off-peak prices and a summer super peak price. In addition, the proposed RTOU design favorably reduces the summer super peak period from six hours to three hours. Customers will see lower prices the other 21 hours during the summer and throughout the year.

Staff proposes that the Board (Board) declare its intent to make TOU rates the standard for residential customers in 2018. Final approval for this change would occur in 2017. This change would affect residential customers only, as all commercial customers are already on TOU.

Staff recommends a staged approach to offering the new RTOU rate. Beginning January 1, 2016 existing TOU1 and TOU2 customers would be moved to the new optional RTOU rate. However, these customers could choose to take service under a different rate. In addition to moving the current TOU1 and TOU2 customers to this rate, staff also proposes to offer the optional RTOU rate in 2016 to those customers who have a photovoltaic generation facility on their premise or customers who own or lease plug-in electric vehicles (PEV).

Staff recommends that the new RTOU rate be optional to other residential customers on standard rates starting January 1, 2017. This staged approach would allow staff time to provide customers with education on time-of-use rates, and develop process and system improvements that are needed to prepare for a large number of customers choosing the new optional RTOU rate.

This Report also addresses several other proposals to:

1. Adopt a PEV credit that provides a lower price for charging of PEVs between midnight and 6 a.m. This PEV credit is intended to shift the PEV charging load to lower usage hours when it costs SMUD less to serve the customer. Shifting PEV charging to this six hour time period would reduce the possibility of overloading local distribution transformers, and would help reduce the need of additional generation, transmission, and distribution capacity.

2. Establish a SolarShares® Program rate as a permanent optional retail rate for commercial and residential customers. It's currently a pilot program for residential customers.

3. Amend the existing economic development rate (EDR) option to fit the changing regional economy. The proposed changes would help to further enhance economic development activity within SMUD's service area. New economic activity would promote load growth and help to increase SMUD's customer base and retail revenue.

4. Accept minor revisions and modifications to SMUD's Rates, Rules and Regulations related to Net Energy Metering (NEM) language to clarify "aggregate customer peak demand", add reference to previously

adopted Board resolution to Rule 4, and permit medical equipment discount program (MED Rate) customers to take service under time-of-use rates.

Board Strategic Direction on Rates

All of the recommendations in this Report conform to SMUD's objectives for rate design and implementation. The Board's 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 would help meet SMUD's financial targets by still providing the following:

- Maintain a minimum fixed charge ratio of 1.45.
- 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 minimize costs through close, ongoing scrutiny of budgetary expenses within its control. However, without the proposed rate increases, external factors over which SMUD has little control result in revenues in 2016 and 2017 dropping below levels necessary to meet the Board's minimum cash flow target of 1.45 times debt service. The primary factors driving the need for the recommended rate increases include the following:

- Higher cost of meeting state mandated renewable energy targets in SMUD's portfolio of resources; and
- Higher commodity costs to provide electricity to SMUD's customer owners; and
- An increase in operating and maintenance expenses necessary to support customer programs and maintain SMUD's delivery infrastructure.

To account for these factors, the first step in the proposed rate increase is a 2.5 percent on January 1, 2016, with the second step, a 2.5 percent increase on January 1, 2017. The proposed rate changes will help meet SMUD's financial targets and rates benchmark listed above.

Cost of Renewables

Renewable energy is more expensive than generation from natural gas fired units. As SMUD gradually increases the share of its energy that comes from renewables, the average cost of the portfolio increases. SMUD also needs new infrastructure to insure the grid remains stable as more intermittent generation such as wind and solar is added. These infrastructure projects will become more critical as SMUD moves beyond the 33% renewables standard that is in place for 2020. SMUD will be accelerating expenditures on storage, flexible generation and transmission projects in 2016 and 2017 so that they can be completed, and thereby, support grid stability in the next decade.

Higher Commodity Costs

While natural gas prices have dropped over the past nine months, SMUD locks in the cost for this commodity 12-36 months in advance. Thus, the cost for 2016 and 2017 prices reflect prior to the softening in the market. SMUD is currently procuring lower priced gas for 2018-2019.

SMUD has also increased its transmission access to the Pacific Northwest. This is a strategic move that will enable SMUD to access more out of state renewable energy if and when the renewable target mandated by the state increases above 33%.

Increase in Other Operating and Maintenance Expenses

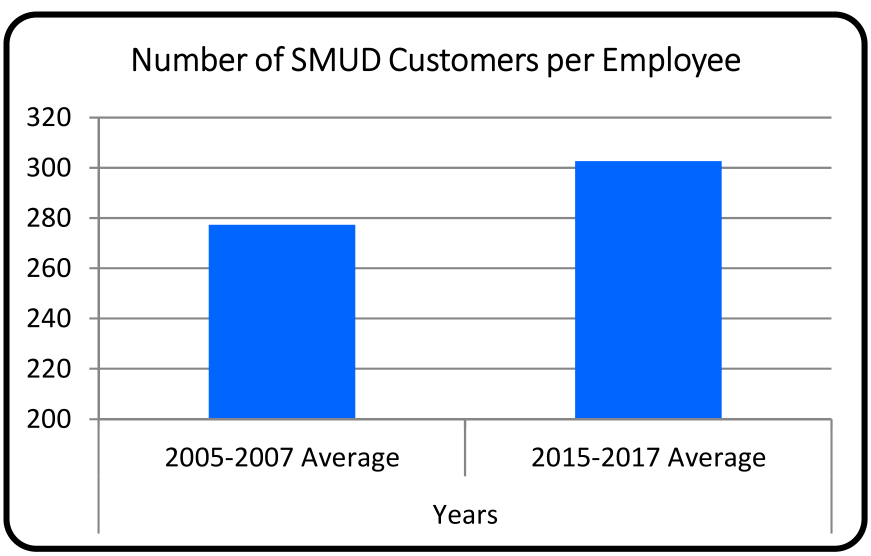
SMUD expects to see most costs for labor, materials and other supplies to increase roughly in line with general inflation. There are some areas that will increase in cost more rapidly. The rate increase will cover costs for reliability compliance, cyber security compliance, new investments to enable customers to better manage their own energy use, and a number of SMUD's power plants that will require major overhauls.

SMUD's Efforts to Control Costs

Customers and Staffing Levels

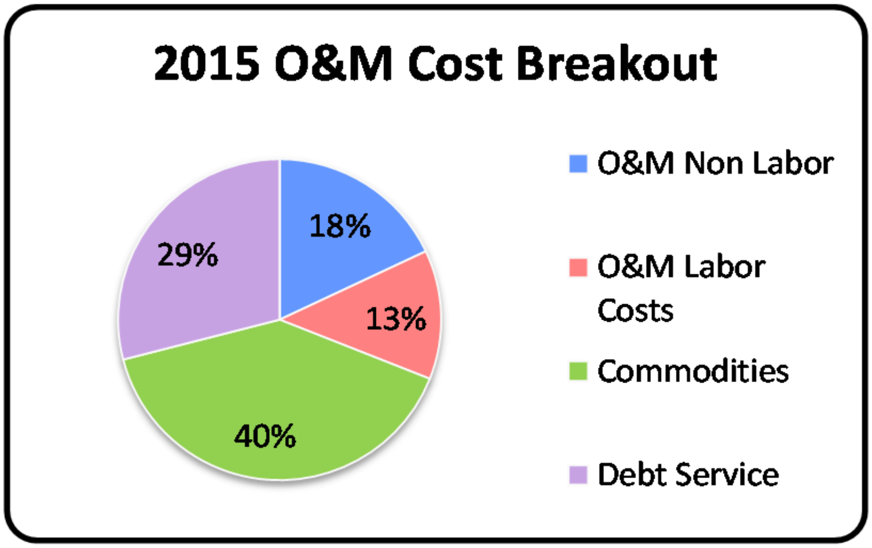
SMUD expects sales in 2016 and 2017 to remain flat compared to SMUD's 2005 sales. In response to this, SMUD has continuously worked to improve the productivity of its workforce. In 2005, SMUD had 273 customers per one employee. The plan for 2016 and 2017 is 301 and 307 customers per one employee per, respectively.

Figure 1. Trend in SMUD customers per employee



Overall, labor represents only 13% of the total operating costs (see Figure 2). Purchasing and generating power is by far the biggest component. Debt service, which reflects the large investments in infrastructure needed to serve customers, is also a big component of SMUD's annual costs. Going forward, managing these investment costs is critical to keeping the power system reliable and affordable.

Figure 2. O&M Cost Breakout



Equipment and Facilities Replacement and Maintenance Costs

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

SMUD also incurs overhaul and maintenance expense for thermal generation and cogeneration plants. The schedule of overhauls and maintenance is based on the operating lifecycles. Four units are scheduled for overhauls in either 2016 or 2017.

The proposed rates would allow SMUD to continue investing and upgrading its distribution system to maintain existing reliability levels and to avoid equipment failures. Likewise, the maintenance overhaul expense for SMUD's thermal generation units is vital to maintaining system reliability and to serve SMUD load.

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.

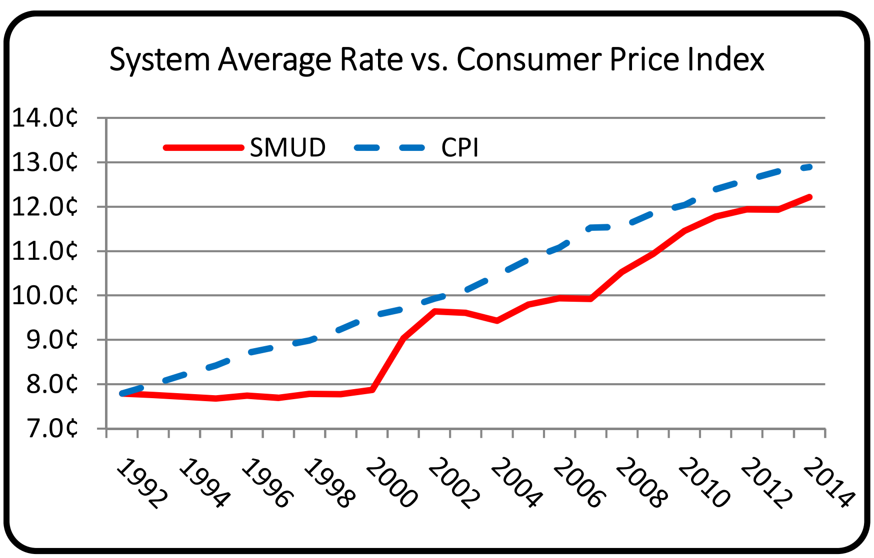
The cash flows achieved by SMUD over the last two years along with management's approach to managing power supply and other risks have contributed to upgrades to SMUD's bond rating by two of the three credit rating agencies. The higher (AA-) ratings will allow SMUD to borrow at lower interest rates. This proposal allows SMUD to maintain cash flows at levels that are consistent with credit upgrades. This is important as SMUD accelerates investment in system infrastructure.

Competitive Position

Competitiveness

For over 20 years SMUD's system average rate per kilowatt-hour (kWh) has increased at a slower rate than general inflation, as measured by the Consumer Price Index (CPI), shown in Figure 3. As a result, electric service in Sacramento has remained affordable.

Figure 3. System Average Rate (cents per kWh) vs. Consumer Price Index



Board' Competitive Rates Strategic Direction (SD-2) specifies that SMUD will maintain its average system price at a level that is at least 18 percent below that of PG&E. As indicated in Figure 4, SMUD's 2014 forecasted system average rate was just about 12.2 cents per kWh, which was 27.7 percent lower than PG&E's forecasted system average rate for the same year.

Figure 4. SMUD vs. PG&E System Average Rate (cents per kWh)

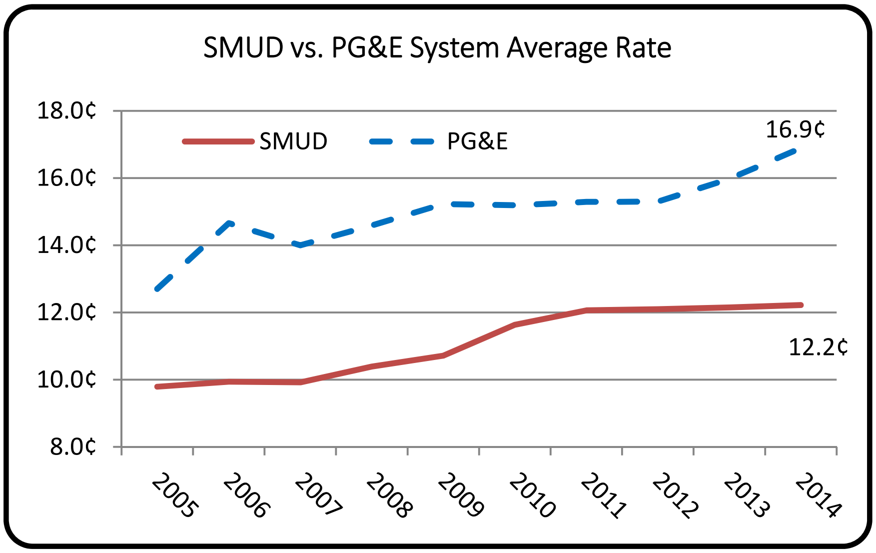


Table 1 shows that SMUD rates are expected to remain 29.0 percent and 27.3 percent lower than PG&E after the proposed 2.5 percent rate increases in 2016 and 2017, respectively. This comparison includes PG&E's recently approved General Rate Case increase of 4.16 percent for 2016. No PG&E rate increases have been assumed in year 2017.[1]

The Board' 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. SMUD's residential rates in 2015 are 28.5 percent below PG&E's and most commercial rates are priced even lower[2].

[1] Per CPUC decision 14-08-032 on PG&E's General Rate Case (GRC) application 12-11-009 adopted on August 14, 2014. Adjustments for power supply cost are separate.
[2] Rate comparison based on most recent SMUD SD-2 Report as of March 2015. Based on SMUD and PG&E's forecasted average rates by class for years 2015-2017.

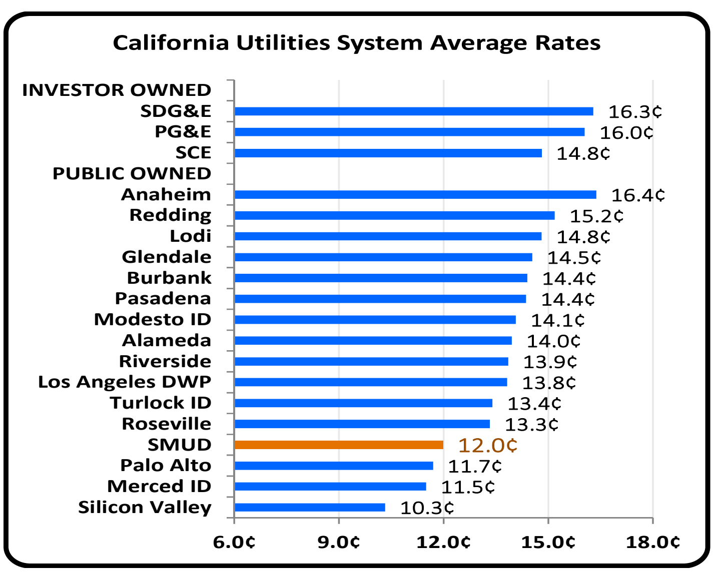
Table 1. SMUD vs. PG&E Comparison Class Average Rate ($/kWh)

Customer		Average Annual Rate*		SMUD Difference Below PG&E		
Class	Description	PG&E	SMUD			
		2015*	2015	2015	2016**	2017***
Residential	Standard	$0.2053	$0.1428	-30.4%	-31.9%	-29.7%
	Time-Of-Use	$0.1832	$0.1337	-27.1%	-31.7%	-30.5%
	Low Income	$0.1173	$0.0888	-24.3%	-22.8%	-21.0%
All Residential		**$0.1833**	**$0.1310**	**-28.5%**	**-29.5%**	**-27.6%**
Small Commercial	<= 20 kW	$0.2127	$0.1430	-32.8%	-35.1%	-33.7%
	21 - 299 kW	$0.2046	$0.1340	-34.5%	-35.8%	-34.2%
Medium Commercial	300 - 499 kW	$0.1867	$0.1227	-34.3%	-35.6%	-33.9%
	500 - 999 kW	$0.1615	$0.1140	-29.4%	-30.6%	-28.8%
Large Commercial	=> 1 MW	$0.1295	$0.1025	-20.8%	-24.9%	-23.1%
Lighting	Traffic Signals	$0.2061	$0.1155	-44.0%	-47.2%	-45.8%
	Street Lighting	$0.1932	$0.1180	-38.9%	-40.8%	-40.1%
Agriculture	Ag & Pumping	$0.1526	$0.1256	-17.7%	-19.2%	-17.2%
System Average		**$0.1729**	**$0.1254**	**-27.5%**	**-29.0%**	**-27.3%**

* PG&E average prices in 2015 reflect rates effective 03-01-15, per Advice Letter 4596-E
** PG&E average prices in 2016 reflect their approved 2014 General Rate Case increase of 4.16%.
*** 2017 does not include a PG&E future rate increase.

In addition, SMUD rates are significantly lower than those of most other California electric utilities. As shown in Figure 5, SMUD's system average rate is 19 percent to 26 percent lower than that of the three large investor-owned utilities within California: PG&E, San Diego Gas & Electric (SDG&E) and Southern California Edison (SCE). SMUD's rates are also 9 percent lower than the average system rate for the state's publicly owned utilities.

Figure 5. California Utility System Average Rate (Cents per kWh)



Source: EIA 861 Form, Year 2013

Workshops and Community Participation

SMUD will hold two public rate workshops and a final public hearing at SMUD on the dates noted below. At these 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 and the community at large to attend these public forums to learn more about the proposed changes, offer comments and ask questions. These forums will also provide valuable feedback for SMUD's Board members who will vote on the proposed measures at the public hearing. The public hearing in June will provide the last opportunity for public input before the Board vote.

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

Date & Time	Location	Address
Wednesday April 29, 2015 6 p.m.	*Public Workshop* SMUD Headquarters Conference Room	6201 S Street, Sacramento
Wednesday, May 13, 2015 10 a.m.	*Public Workshop* SMUD Headquarters Conference Room	6201 S Street, Sacramento
Thursday, June 18, 2015 9 a.m.	*Public Hearing* SMUD Auditorium	6201 S Street, Sacramento

Revenue Requirement

Summary

This section explains the proposed rate revisions for 2016 and 2017. Table 2 shows the effect of the recommended 2.5 percent rate increase in 2016 followed by a 2.5 percent rate increase in 2017. The table shows that the 2.5% rate increase is applied equally to all rate classes with each receiving a proportionate share of the increase in 2016 and 2017.

Table 2. SMUD Revenue After Proposed Rate Increases*

Customer Class ($ in Millions)	Current Revenue Forecast	2016 Forecast with 2.5% Increase	2016 Percent Impact	2017 Forecast before additional Increase	2017 Forecast with 2.5% Increase	2017 Percent Impact
Residential	$603.26	$618.49	2.5%	$616.05	$631.57	2.5%
Small Commercial < 300kW	$347.10	$355.82	2.5%	$356.11	$364.99	2.5%
Small Commercial 300<500kW	$79.77	$81.73	2.5%	$81.78	$83.79	2.5%
Medium Commercial 500<1,000kW	$74.22	$76.06	2.5%	$75.37	$77.21	2.5%
Large Commercial >1,000kW	$168.64	$172.79	2.5%	$173.13	$177.38	2.5%
Agricultural	$8.36	$8.56	2.5%	$8.55	$8.76	2.5%
Lighting	$9.81	$9.96	1.6%	$10.06	$10.22	1.5%
Total	**$1,291.16**	**$1,323.42**	**2.5%**	**$1,321.05**	**$1,353.92**	**2.5%**

**Retail revenue excludes special contracts.*

While the annual 2.5% increase applies equally across all rate classes, the impact to lighting class revenue is actually less than 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 monthly leasing and maintenance charges, which are not subject to the rate increase. These charges are reviewed annually and adjusted as necessary.

The remainder of this 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

This proposal recommends a two-step rate increase of 2.5 percent on forecasted residential class' retail revenue for years 2016 and 2017. The proposed rate increases would not apply to the monthly System Infrastructure Fixed Charge (SIFC), which will be $18 in 2016 and $20 in 2017, as established by the Board in 2011[3]. Instead, the rate increases would be collected through the energy and miscellaneous charges on customer bills. The increase applies to all residential rates including closed electric, open electric, nonelectric, residential time-of-use rate options, well customers, low-income and existing pilot rates.

The rate increase as described above would also apply to the Energy Assistance Program Rate (EAPR). These rates would remain discounted to keep electric service affordable for low-income customers. Under this proposal, the discount formula and cap approved in prior rate actions for years 2016 and 2017 would remain unchanged.

SMUD currently offers a maximum monthly EAPR discount cap, applicable to all rates and all seasons. Customers with domestic wells receive a higher discount cap. Table 3 shows the Board approved discounts by component for years 2016 and 2017.

Table 3. Low-Income Discounts

Discounts	2016	2017
SIFC Discount	$10.50	$11.50
Percent EAPR Discount Electricity Usage Charge	44%	48%
Maximum EAPR Discount	$43	$42
Maximum EAPR Discount for Wells	$55	$54

Bill Impacts

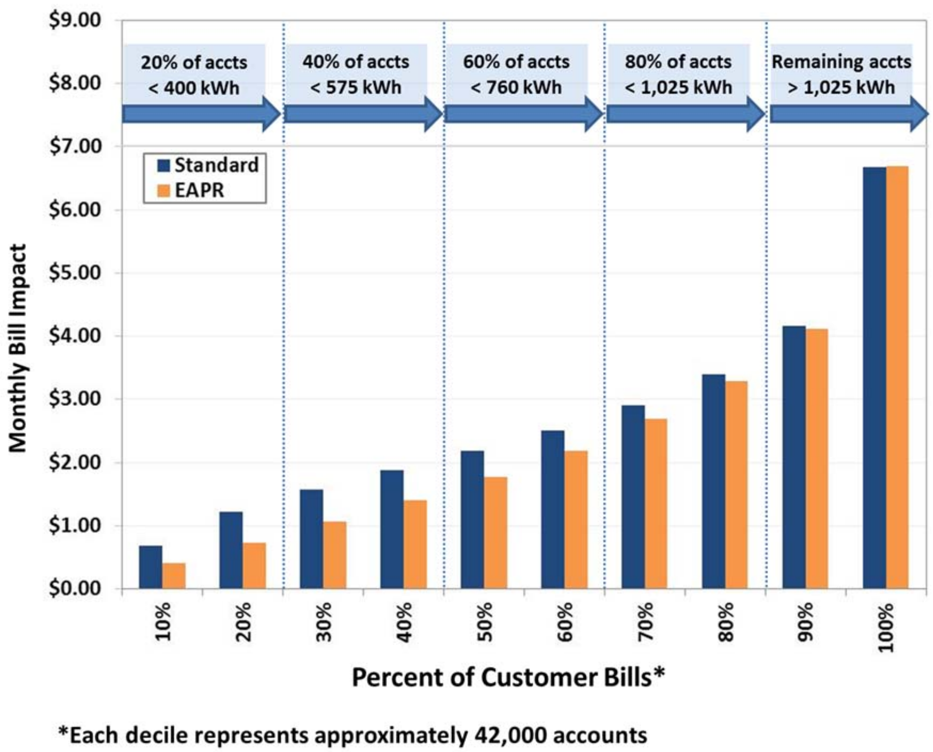
The rate increase for residential customers applies only to the kWh charge for energy use. Bill impacts would depend on how much electricity a

[3] Per Board resolution 11-08-06 adopted on August 4, 2011.

customer uses each month. Figure 6 shows the bill impacts for standard and low-income customers if their energy consumption remains the same. As seen in Figure 10, low-income customers would see slightly lower dollar bill impacts than standard customers.

Approximately 60 percent of monthly customer bills – those using less than 760 kWh per month – would see an average monthly bill increase of less than $2.50 in 2016 and again in 2017. Another 20 percent of customers, with use up to 1,025 kWh, would see average monthly bill increases less than $3.40 through 2017. The customers who use the largest amounts of energy would see average monthly bill increases of $6.70.

Figure 6. Rate Increase Bill Impacts (2016 and 2017)



2. New Optional Residential Time-of-use Rate (RTOU)

This section describes the structure and features proposed for an improved new optional cost-based residential time-of-use (RTOU) rate to be introduced beginning January 1, 2016. The proposed RTOU rate design better aligns prices with the cost to serve and provides a better TOU option than the current two TOU1 and TOU2 and moves SMUD closer to what staff expects to propose as a standard residential rate design in 2018. Staff will study other residential TOU rate options to develop a standard TOU rate structure and to ensure a smooth transition from the current tiered-pricing structure to a time-based pricing structure for our residential customers.

In 2013, the Board approved a transition plan to eliminate tiers for residential rates by 2017. Staff recommends that beginning January 1, 2016 existing TOU1, TOU2, RTEV, and RTEV4S rates be eliminated and the customers on these rates be moved to the new optional RTOU rate. Staff further recommends that customers who own or lease rooftop solar panels or PEVs be given the option to enroll on this new rate. Staff also recommends that in 2017 the optional RTOU rate be available to other residential customers.

Purpose

Board policy on rate design has long supported TOU pricing as a preferred option. Board Strategic Direction SD-2 Competitive Rates establishes the rate principles that prices should reflect the cost of energy when it is used, and in particular, should signal the need to reduce energy during SMUD's high-cost peak periods.

For years, all of SMUD's commercial and industrial customers have been on TOU rates, giving them a financial incentive to shift energy use away from the hours of peak demand. This gives customers opportunities to save money on their energy bills while helping SMUD manage costs and curb the need to build new power plants[4,5].

Time-based rates also comply with the Energy Policy Act of 2005, which requires each electric utility to offer time-based rates to each of its customer classes. The Act reads:

> "A time-based schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility's costs of generating and purchasing electricity at the wholesale level.". See details of this federal law at this link: *http://www.gpo.gov/fdsys/pkg/PLAW-109publ58/pdf/PLAW-109publ58.pdf.*

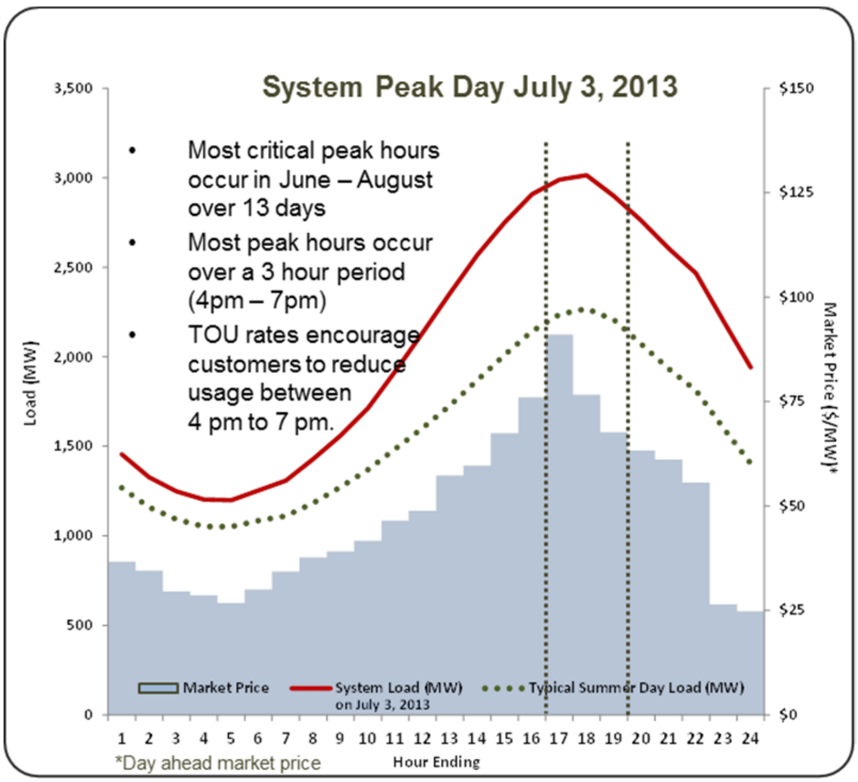
[4] SMUD is not alone in shifting to TOU rates. For example, the three largest investor-owned utilities (IOUs) in California (PG&E, SDG&E, and SCE) recently filed with the California Public Utilities Commission their proposed residential time-of-use rates to comply with Assembly Bill 327 (AB 327 - 2013). These optional TOU rates are expected to be offered to their customers by 2016.
[5] Application 14-11-014 of Pacific Gas and Electric Company for Approval of its 2015 Rate Design Window Proposals Filed on January 29, 2015.

As stated in a presentation to the Strategic Development Committee on December 17, 2014, in the 2015 rate action, staff proposes that the Board declare its intent to move to residential TOU as the standard rate in 2018.

<u>SMUD’s Peak Demand Challenge</u> - Peak demand occurs during the hot days of summer when temperatures can soar to 100 degrees or more. Customers turn on their air conditioners, during the hottest part of the day typically in the afternoon hours. For example on July 3, 2013, SMUD customers pushed the peak demand for energy to approximately 3,014 megawatts (MW).

To illustrate SMUD’s peak demand issue, a graph comparing SMUD’s hourly load to market energy prices on July 3, 2013 is shown in Figure 7.

Figure 7. The Challenge of SMUD's "Peak" Demand



As Figure 7 shows, the difference in load between a peak day and a typical summer day is more than 400 MW’s. The number of these peak days SMUD sees in a summer is typically about a dozen and the highest loads are from 4 p.m. to 7 p.m.

SMUD pays more for electricity during the summer months. Figure 7 illustrates the sharp increase in market prices during the summer peak hours from 4 p.m. to 7 p.m.

SMUD's future peak demand growth eventually would require the need for additional power plants. This peak demand growth may also be addressed by time-of-use pricing which encourages shifting load out of the period between 4 p.m. to 7 p.m.

Energy efficiency and time-based rates are the best way to address this challenge. Every kilowatt-hour of electricity saved or moved out of the peak hours is one less kilowatt-hour that needs to be generated by a peaker plant.

The proposed TOU rate design better aligns prices with costs of electricity when it is used, and better matches how SMUD incurs power supply cost.

Time-based rates give customers two ways to control their bills – reduce energy usage overall and shift energy usage to lower cost off-peak hours.

Staged Implementation - In the 2013 rate action, SMUD's Board adopted temporary Smart Pricing Option Pilot rates, which tested three TOU rate designs with a limited number of customers. After the successful implementation of the Smart Pricing Option Pilot rates and learning from this study, SMUD proposes offering a new optional RTOU rate to a subset of customers starting January 1, 2016, and expanding the optional rate to other residential customers January 1, 2017. SMUD staff presented the proposed RTOU rate and staged implementation to the Board Strategic Development Committee on December 17, 2014. This staged approach would allow staff time to provide customers with education on time-of-use rates, and develop tools to help customers understand which rates are best for them, and upgrade systems and processes that would be needed to prepare for a large number of customers choosing the new optional RTOU rate.

The information gathered from implementing the optional RTOU rate will become crucial if the Board approves staff's recommendation to declare its intent to move to TOU as the standard residential rate in 2018.

Initial Enrollment - The new optional RTOU rate will be available January 1, 2016 to a limited group of eligible customers as follows:

- Customers enrolled prior to January 1, 2016 on the optional TOU1 and TOU2 rates (rate categories RTCH, RTEH, RTGH, RTE5, RTC5, and RTG5), and customers enrolled on PEV rates (RTEV and

RTEV4S). These customers will be enrolled in the new optional RTOU rate (new category RT01) and will be informed of other rate options available to them, so they can elect to be placed on an alternative residential rate at any time throughout the year. However, after enrolling in their preferred rate option the customer must stay on that rate for at least 12 months.

- Customers who have a photovoltaic generation facility on their premise.
- Customers who own or lease Plug-in Electric Vehicles (PEV).

Based on current billing records, there are approximately 300 customers on the optional TOU1 and TOU2 rates listed above, approximately 6,800 customers who have a photovoltaic generation facility on their home, and about 890 PEV customers. Residential TOU bills with combinations of PEV options and net energy metering tend to be more complicated and challenging, so staff believes that the early roll out of the optional RTOU rate in 2016 to this small group of customers provides the right opportunity to test the new rate.

Staff recommends that the new RTOU rate be optional for other residential customers beginning in 2017.

Proposed Rate Design - Figure 8 provides an illustration of the proposed RTOU rate design for year 2016 which includes the proposed 2.5% revenue requirement. The new optional RTOU rate is simpler than current residential optional rates and standard tiered rate structures. This new optional RTOU rate design balances simplicity and the need to align energy pricing with the cost-of-service. It has only three kilowatt-hour prices, depending on the time of day and season. The lowest price would be in effect from 9 p.m. to 9 a.m. weekdays and all weekend hours year-round (green shaded area in Figure 8). A middle price would be in effect from 9 a.m. to 9 p.m. year-round (blue shaded area), except between 4 p.m. and 7 p.m. on summer weekdays, excluding July 4th and Labor Day, (orange shaded area). For those summer super peak hours, the highest price would be in effect.

Figure 8. Proposed Residential Time-Of-Use Rates

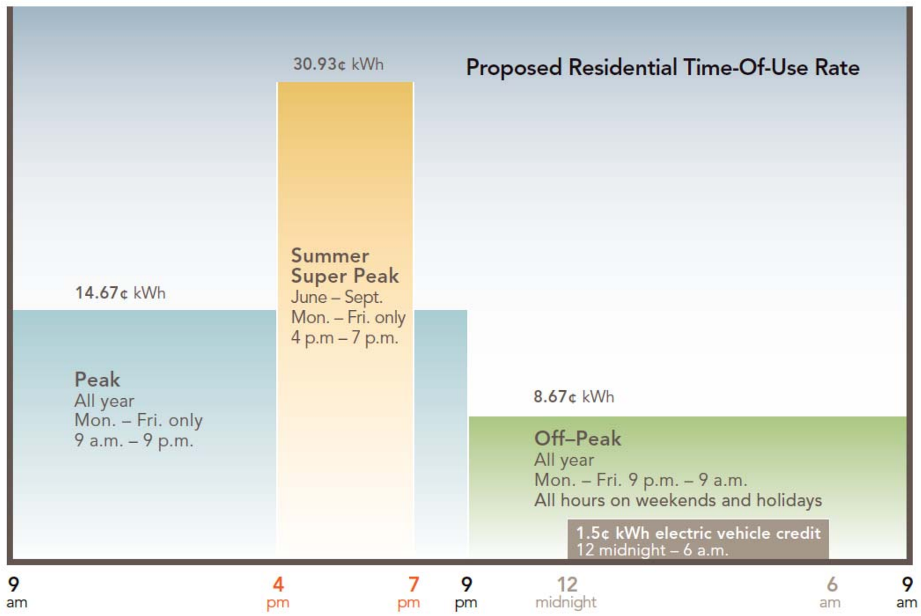


Table 4 illustrates the new proposed optional RTOU rate structure. Customers would continue to pay the monthly System Infrastructure Fixed Charge (SIFC) and surcharges as specified in the RTOU rate schedule included in Volume 2 of this Report.

Table 4. Optional Time-Of-Use Rate Structure

Season	Period	2016 Price ($/kWh)	2017 Price ($/kWh)	Date Types and Hours
Jun 1 -Sep 30	**Summer Super Peak**	$0.3093	$0.3161	Weekdays between 4:00 p.m. and 7:00 p.m.
Year-round (Jan 1 - Dec 31)	**Peak**	$0.1467	$0.1485	Weekdays between 9:00 a.m. and 9:00 p.m. except during Summer Super Peak hours.
	Off-Peak	$0.0867	$0.0866	All other hours, including weekends & the holidays.

Revenue Impact

This new proposed optional RTOU rate is revenue neutral for the residential class in both 2016 and 2017.

Staff does not expect a significant revenue impact in 2016, since the number of eligible customers is less than 10,000 and not all will enroll.

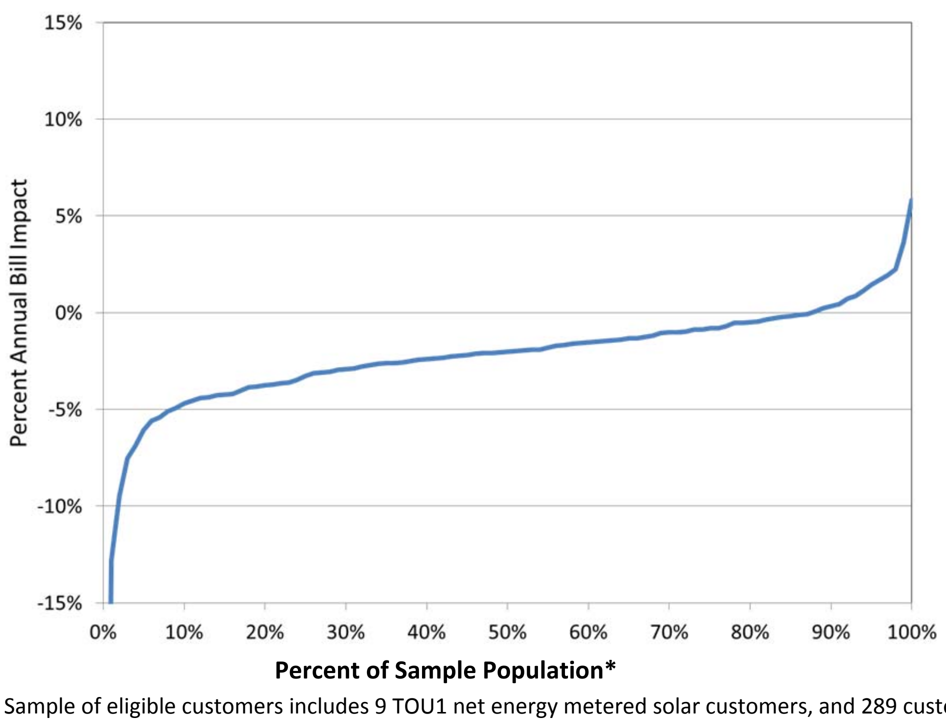
In 2017, the optional RTOU rate would be available to other residential customers. Staff estimates a revenue impact of about 0.1% of total residential class' revenue in 2017. The impact is based on the assumption that about 20,000 customers[6] might enroll in the RTOU rate option with an average monthly saving of $3 per customer for those who will benefit from the rate. This revenue impact will be recovered from the standard residential class customers.

Bill Impacts

SMUD intends to roll out the new optional RTOU rate starting January 1, 2016 to a small group of eligible customers. About 85% of these eligible customers are expected to save money from the proposed rate design if their energy usage patterns do not change, based on estimates using 2013 load data for a sample of this group.

Figure 9, Figure 10, Figure 11 and Figure 12 provide an illustration of the distribution of rate impacts among the sample of the eligible customers in 2016.

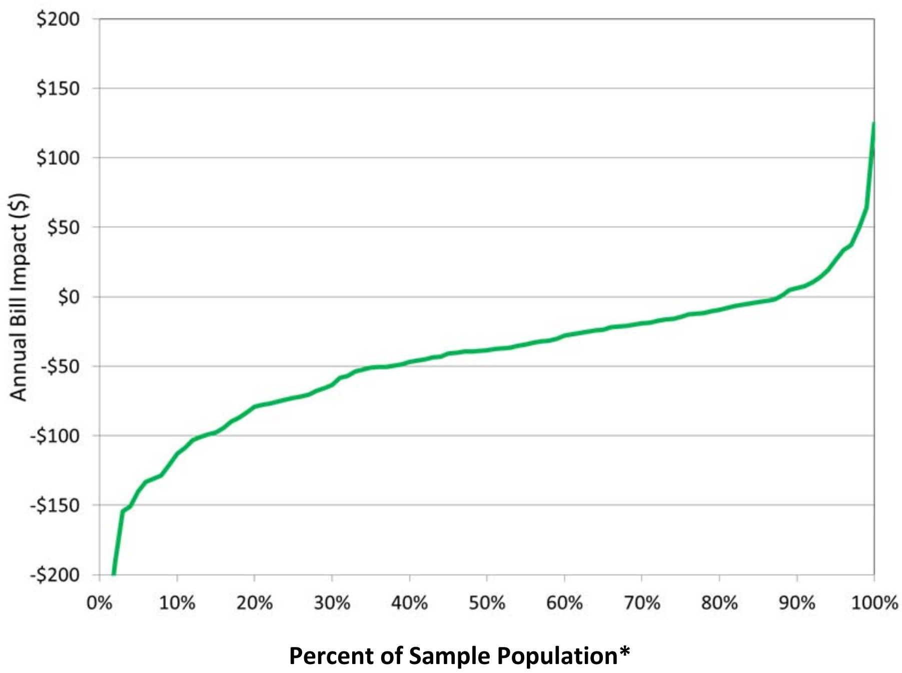
Figure 9. Annual bill impacts (%) of TOU1 & TOU2 customers *



* Sample of eligible customers includes 9 TOU1 net energy metered solar customers, and 289 customers under TOU1 and TOU2. It does not include EAPR/MED customers.

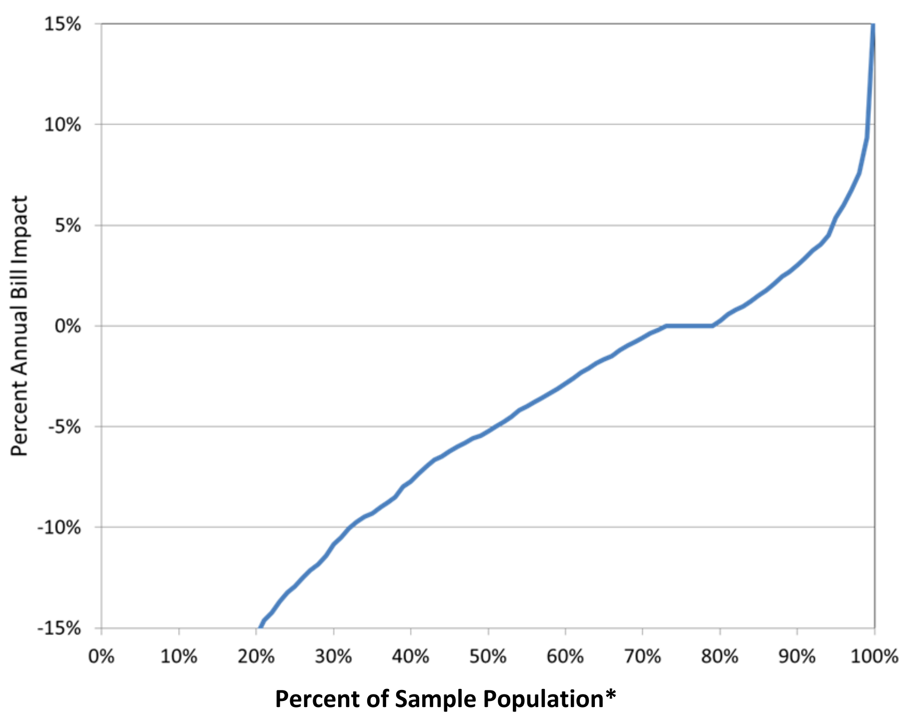
[6] This estimate represents about twice the initial number of customers enrolled in the Smart Pricing Option Pilot rates.

Figure 10. Annual bill impacts ($)of TOU1 & TOU2 customers *



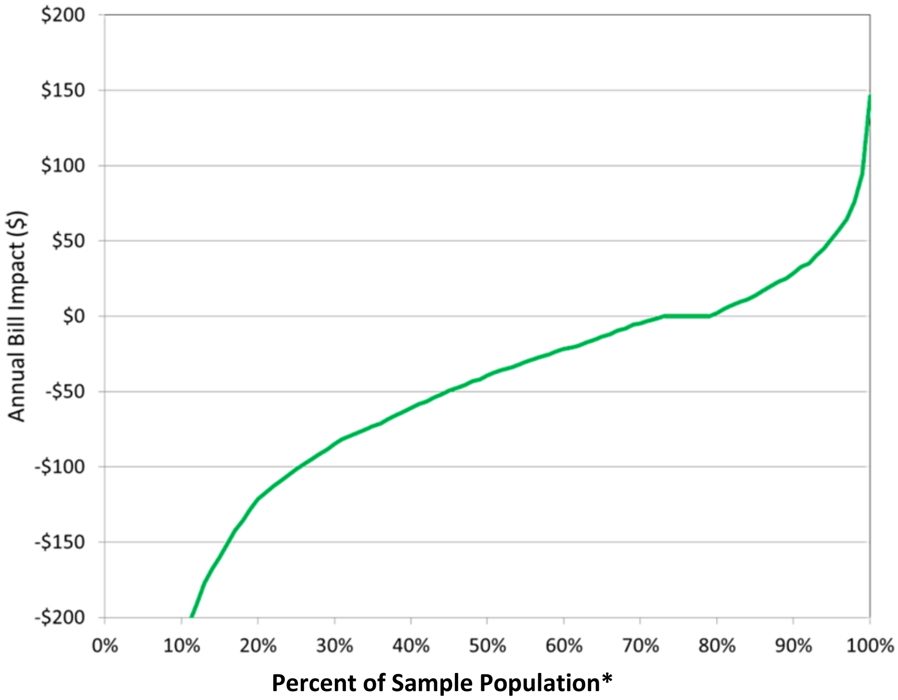
* Sample of eligible customers includes 9 TOU1 net energy metered solar customers, and 289 customers under TOU1 and TOU2. It does not include EAPR/MED customers.

Figure 11. Annual bill impacts (%) of net energy metered (NEM) customers *



* Sample of eligible customers includes 1,912 tiered net energy metered solar customers. It does not include EAPR/MED customers.

Figure 12. Annual bill impacts ($)of net energy metered (NEM) customers*



* Sample of eligible customers includes 1,912 tiered net energy metered solar customers. It does not include EAPR/MED customers.

Recommendations

1. Adopt the following new optional residential time-of-use rate (RTOU) per the residential rate schedules in Volume 2 of this Report.

Table 5. Residential TOU Rate

Season	Period	2016 Price ($/kWh)	2017 Price ($/kWh)	Date Types and Hours
Jun 1 - Sep 30	**Summer Super Peak**	$0.3093	$0.3161	Weekdays between 4:00 p.m. and 7:00 p.m.
Year-round (Jan 1 - Dec 31)	**Peak**	$0.1467	$0.1485	Weekdays between 9:00 a.m. and 9:00 p.m. except during Summer Super Peak hours
	Off-Peak	$0.0867	$0.0866	All other hours, including weekends & the holidays.

2. Starting January 1, 2016, existing customers under the residential Option 1 (TOU1) or Option 2 (TOU2) be moved to the new optional RTOU rate (new rate category RT01) and RTEV and RTEV4S

customers on TOU1 be moved to the new optional RTOU rate (new rate category RT01) effective with the beginning of the first full billing cycle in January 2016. Customers who have a solar generation facility on their home and customers who own or lease plug-in electric vehicles can choose to be on this new optional RTOU rate (new rate category RT01) as early as January 1, 2016. This includes EAPR, MED or combination EAPR/MED customers. After enrolling in the RTOU rate option, the customer must stay on that rate for at least 12 months.

3. Eliminate the existing optional residential time-of-use rate Option 1 (TOU1) and Option 2 (TOU2), rate categories RTCH, RTEH, RTGH, RTE5, RTC5, and RTG5.

4. Move one customer currently under the optional TOU1 rate with RTES credit to the new RTOU rate and discontinue the RTES credit starting January 1, 2016.

5. Open the new optional RTOU rate (new rate category RT01) to other residential customers effective January 1 2017. Permit EAPR, MED or combination EAPR/MED customers to be eligible in 2017 for the RTOU rate.

6. Specify master-metered service, rate category RSMM, is not eligible for the new optional RTOU rate.

Revisions described above are detailed in the RTOU rate schedules included in Volume 2 of this Report.

3. Residential Plug-in Electric Vehicle Credit

Purpose

To encourage PEV charging between midnight and 6 a.m., staff recommends a new cost-based PEV credit. The credit will apply to the new optional RTOU rate. An advantage to this credit is that it will not require a second meter to bill. By not requiring a second meter, SMUD and the customers will save money on equipment, installation, and ongoing maintenance.

The home-charging of plug-in electric vehicles (PEVs) is expected to become a common and significant addition to residential power consumption. In fact, some PEV chargers on the market can draw up to 19 kW, about the same as five to six houses simultaneously running their central air-conditioners.

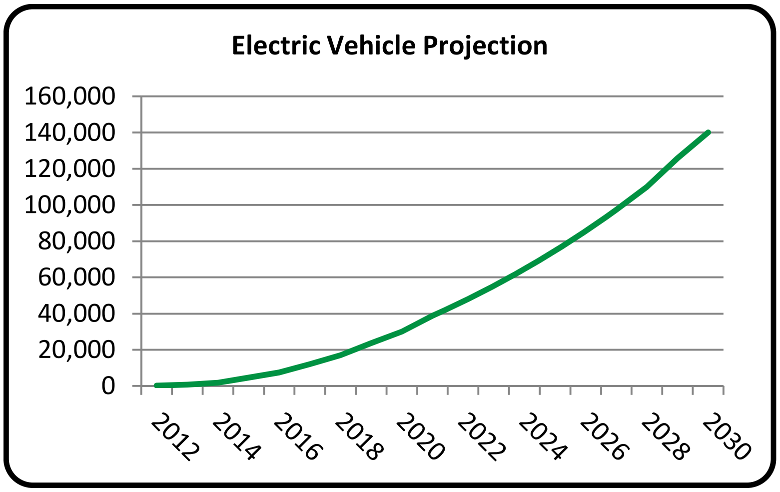
This new load would add to SMUD's marginal retail revenues, but may create problems if it leads to overloading local transformers. To avoid this, SMUD wants to encourage PEV charging between midnight and 6 a.m., when demand on transformers and other infrastructure is lower. As a result, staff is proposing a PEV credit of 1.5 cents per kilowatt-hour on energy used between midnight and 6 a.m. for customers who own or lease a PEV and are on the optional RTOU rate. This credit would apply to all electricity used during that period.

Background: In the 2013 rate action, the Board approved staff's recommendation to close the residential plug-in electric vehicle rate (RTEV) effective January 1, 2014. (Customers already on the rate were allowed to stay on it.) The RTEV rate was SMUD's original PEV rate, developed in 1993. The decision was made to close the rate because it did not adequately reflect the potential impact and cost of PEV charging on neighborhood transformers. The off-peak time period started very early in the evening, exposing transformers to potential overload and damages from PEV charging loads.

PEV Customers: As of February 2015, there were approximately 2,300 PEVs in SMUD's service territory. Some 600 residential PEV customers are on existing PEV rates, with 59 customers on the dual-metered and closed RTEV rate. The remaining PEV customers are not on a PEV rate option.

The number of PEVs is expected to increase to approximately 140,000 by 2030 as illustrated in Figure 13. This growth would require substantial new investment in the distribution system to avoid impacting the safety and reliability of the grid. New investment would be essential should a large number of PEVs be charged during peak hours, especially if multiple PEVs are served off the same transformer.

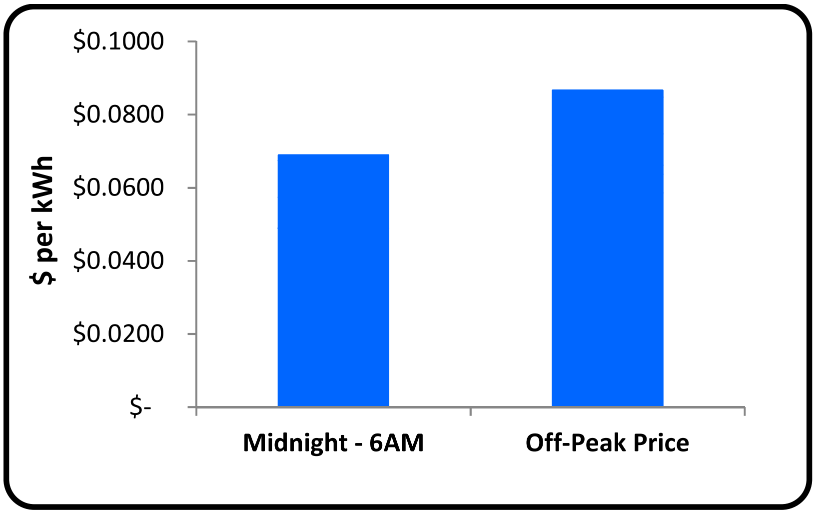
Figure 13. Projected PEV's in SMUD Territory



Proposed PEV Credit: Staff proposes to create a new credit for PEV customers that elect to charge their vehicles between midnight and 6 a.m. The credit would be 1.5 cents/kWh lower than the off-peak price (from 9 p.m. to 9 a.m.) of the new optional RTOU rate. The proposed pricing structure is consistent with the currently closed RTEV credit. The load-shift to the PEV-credit period will provide better overload protection for local transformers, and reduce future planning requirements for generation capacity, distribution, and transmission. Based on the results of SMUD's current pilot rates, staff concluded that price signals encourage customers to shift PEV charging to lower-priced periods.

Staff's analysis demonstrates that power costs from midnight to 6 a.m. are approximately 1.5 cents/kWh lower than costs to serve the new marginal load during other off-peak hours of the day (see Figure 14). This is primarily due to reduced energy and capacity costs, as well as reduced demand on transformers and other infrastructure. These lower costs and lower demand ensure there is enough contribution to margin to support a 1.5 cents/kWh credit to serve the new incremental PEV load.

Figure 14. Electricity Cost by Time Period



Staff recommends the existing 59 dual-metered PEV customers be moved to the new RTOU rate (rate category RT01) beginning January 1, 2016. Most of these customers have standard tiered rates for their home and are already on TOU rates for their PEV. The remaining PEV customers would have the option of choosing the RTOU rate in 2016.

The proposed pricing is consistent with the current RTEV credit except that the proposed PEV credit, on average, would be lower than the credit under the closed RTEV rate.

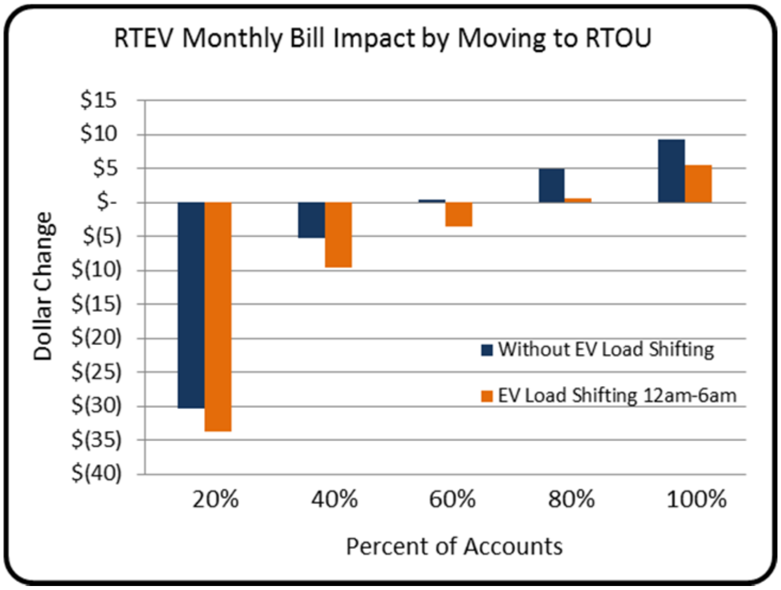
Revenue Impact

The proposed change will result in annual savings to SMUD of about $2,300 from the 59 dual-metered PEV customers being moved to the new RTOU rate. For the incremental PEV load there is enough contribution to margin to support the recommended 1.5 cents per kWh PEV credit.

Bill Impact

The annual bill impact of moving the existing 59 dual-metered PEV customers to the new RTOU rate effective January 1, 2016 is shown in Figure 15.

Figure 15. RTEV Monthly Bill Impact by Moving to RTOU



If customers do not change their PEV-charging behavior, about half of the customers would see moderate bill decreases and the other half would see moderate bill increases. Since the proposed RTOU rate is optional, customers could choose to enroll in any alternate rate, including the standard residential rate.

Recommendations

1. Discontinue the currently closed, RTEV and RTEV4S rates.
2. Adopt a new PEV credit as part of the new RTOU rate option for customers who have a PEV. The PEV credit will be a 1.5 cents/kWh credit between midnight and 6 a.m. to promote PEV charging.
3. Effective January 1, 2016, transfer the PEV customers on the existing RTEV and RTEV4S rates and billed under Option 1 TOU to the new RTOU rate effective with the beginning of the first full billing cycle in January 2016.
4. Add language to modify the Applicability Section of RTOU to include customers who own or lease PEVs in 2016.

Revisions described above are detailed in the RTOU rate schedules included in Volume 2 of this Report.

4. Smart Pricing Pilot Rates

Staff recommends a minor language amendment in the rate schedule for Smart Pricing Options. This change would affect only customers in PowerStat, a demand-response program that uses the Smart Pricing Options rate schedule.

The change would allow not just day-ahead notifications for Conservation Days, but also day-of notifications, for those customers that participate in SMUD's demand response (DR) program. By eliminating the current constraint that requires day-ahead notifications, this would increase the value of the operational DR asset by allowing greater flexibility to meet the needs of customers who have technology that automatically adjusts for Conservation Days.

Purpose

Currently, SMUD's Smart Pricing Options rate requires SMUD give participating customers in our DR program day-ahead notice of Conservation Days. The proposed change would amend this requirement for PowerStat participants who have thermostats that automatically adjust their settings in response to a notice. The day-ahead notification requirement for PowerStat participants needlessly limits SMUD's ability to respond to sudden or unexpected changes in the weather that can occur the same day as the Conservation Day. Eliminating this limitation for PowerStat customers would make better use of new technology and give SMUD more operating flexibility. This change would not present a hardship for PowerStat participants. SmartPricing participants who have critical-peak pricing plans and must adjust their thermostats manually would continue to receive day-ahead notification of Conservation Days.

Revenue Impact

There is no revenue impact to this change.

Recommendations

1. Amend "Conservation Days" language in section VI. A of the Rate Schedule R-SPO to read as follows.

   "Up to twelve summer weekdays between 4 p.m. and 7 p.m., excluding the July 4 and Labor Day holidays. Conservation Days are announced by SMUD a day in advance. ***However, if customers have technology designed to***

automatically adjust for Conservation Days, announcements may occur the same day as the event".

The revision described above is detailed in the R-SPO rate schedule included in Volume 2 of this Report.

Changes to Commercial Rates

1. Rate Increase for Commercial and Agricultural

The proposed 2.5 percent rate increases for 2016 and 2017 would be applied equally 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;
- Summer Super Peak Demand Charge;
- Site Infrastructure Charge;
- Generator Standby Charges;
- Power Factor and Other Miscellaneous Charges.

An exception to the rate increase being applied to all rate components would be the small commercial rate for customers with loads that do not exceed 20 kW (GSN_T). In this case, the 2.5 percent rate increase would be applied to the energy and miscellaneous charges only. Average bill impacts for GSN_T customers are 2.5%, individual bill impacts vary depending on how much electricity the customer uses each month. For these customers, the SIFC charge would remain unchanged from the prices established by SMUD's Board in the 2011 rate action; as established in that 2011 rate action; the SIFC charges will be $18 in 2016 and $20 in 2017. The energy offset, which subtracts an equivalent cents/kWh from the electricity prices, will also continue as approved by the Board in 2011.

Bill Impacts

On average, SMUD's commercial and agricultural customers will see an increase on their annual bill of 2.5% in 2016 and 2017.

2. Economic Development Rate (EDR)

SMUD's Economic Development Rate (EDR), offers a discount to qualified new and expanding commercial customers. After significant review of the effectiveness of the EDR and comparing it with similar discounts at other utilities in California, it has been determined that the eligibility criteria for the EDR need to be updated to reflect changes in the regional economy. The intent of this update is to better promote development activity in SMUD's service area. In turn, this will promote more load growth and increase in SMUD's customer base. The recommendation supports the Board's strategic direction on economic development (SD-13) which specifically states:

> *"Promoting the economic vitality of our region and the growth of our customer base is a key value of SMUD…*
>
> *C. SMUD shall assist in retaining, recruiting, and growing commercial and industrial rate-paying customers.*
>
> *D. SMUD shall offer economic development rates and program incentives…"*

The recommended EDR changes will give SMUD greater flexibility in working to stabilize and expand the Sacramento regional economy.

Purpose

SMUD's current EDR was created nearly 15 years ago with minimal changes made since then, even though the regional economy has changed dramatically. Currently, to be eligible for the discount rate customers must:

1. Use a minimum load of 300 kW on a single meter for three consecutive months,
2. Create a minimum of 50 jobs, and
3. Operate under one of these North American Industrial Classification System (NAICS) sectors:
    a. Manufacturing (NAICS 311-99)
    b. Information (NAICS 511-519)
    c. Finance and Insurance (NAICS521-525)
    d. Professional, Scientific & Technical Services (NAICS 541)

Customers that qualify must sign a 5-year contract which obligates the customer to take service from SMUD and not procure power from another entity. The discount off the standard rate is 5% for the first year, 3% for the second year, 1% for the third year, and 0% for the remaining two years.

The current EDR doesn't address two aspects of economic development that are important factors in stabilizing a regional economy: business retention and the encouragement of business growth in areas of high unemployment and poverty. These two attributes are interrelated as the retention of a business helps maintain employment resulting in lower unemployment numbers. Likewise, encouraging business growth in blighted areas can help revitalize and attract new investment.

SMUD's current EDR is rarely used. Over the past ten years, on average, there were less than two accepted applicants per year.

Additionally, Board Strategic Direction SD-2 stresses that "Maintaining competitive rates is a core value of the District." PG&E recently implemented a new enhanced economic development rate in April of 2014. PG&E's base discount is 12 percent for five years throughout its service territory, with an enhanced discount of 30 percent for five years in areas of high unemployment and poverty. The neighboring areas of San Joaquin County, West Sacramento, Woodland, Yuba County, and Sutter County all qualify for the 30 percent discount. This discount applies to all commercial and industrial business attraction, expansion and retention opportunities.

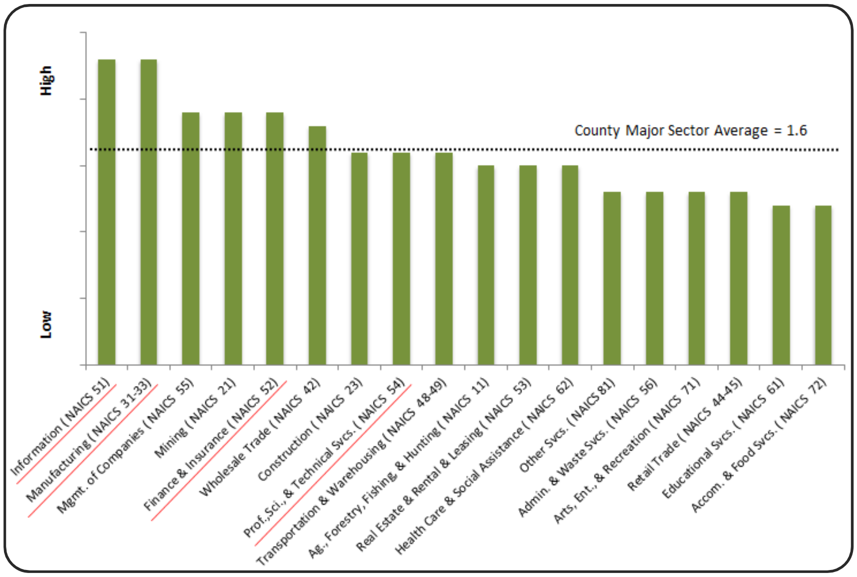
SMUD analysis shows that even with PG&E's new 30% economic development discount, all SMUD commercial primary and secondary voltage rates with an EDR discount eligibility will remain lower than PG&E's economic development discounted rates.

Staff proposes amending the existing rate option to include more sectors of the economy. This would help Sacramento compete with other utilities in retaining and attracting businesses, which, in turn, would help stabilize and grow the regional economy. It would also maintain and increase important sources of revenue for SMUD.

SMUD's analysis shows that amending the EDR option to include additional NAICS sectors provides enough contribution to margin to support the EDR discount on incremental load. In addition, these sectors all have economic multipliers exceeding one that contribute to jobs and the need for electric growth in the region.

Figure 16 provides an overview of the employment multiplier based on 2012 Sacramento County data, the most recent annual data available. The industries underlined in red are currently eligible for SMUD's EDR.

Figure 16. Sacramento County Major Sector Employment Multiplier



Source: IMPLAN, 2012 Coefficients, Center Strategic Economic Research

Revenue Impact

Staff estimates an additional six to nine commercial customers would be added annually under the amended EDR qualifications with annual revenue impacts ranging from $98,000 to $216,000. New customers on the EDR discount will contribute to fixed cost recovery for the rate class.

Bill Impacts

This action would only impact commercial customers who are approved for the EDR under the amended proposal. Eligible customers must still execute a 5-year agreement and the percentage discounts remain the same as for the current EDR. The discount off the standard rate is 5% for the first year, 3% for the second year, 1% for the third year, and 0% for the remaining two years.

Recommendation

Based on the above, the following changes are recommended:

1. Amend section IV. C. of rate schedules GS-TOU1, GS-TOU2, and GS-TOU3 to move the Economic Development Rate Option from these rate schedules to a new separate EDR rate schedule.

2. The new EDR rate schedule shall expand the current NAICS codes from 4 to 14 as shown below.

Current Industries	Proposed Industries
Manufacturing (311-339) Information (511-519) Finance & Insurance (521-525) Professional, Scientific & Technical Services (541)	Agriculture, Forestry, Fishing & Hunting (NAICS 11) Mining, Quarrying, and Oil & Gas Extraction (NAICS 21) Utilities (NAICS 22) Construction (NAICS 23) Wholesale Trade (NAICS 42) Transportation & Warehousing (NAICS 48-49) Real Estate & Rental & Leasing (NAICS 53) Management of Companies and Enterprises (NAICS 55) Administrative & Support Services (NAICS 56) Health Care & Social Assistance (NAICS 62)

The qualifying criteria will continue to be a maximum demand of at least 300 kW on a single meter for three consecutive months for the facilities with site activity that falls under one of the North American Industrial Classification System (NAICS) sectors listed above.

3. Add a business retention component to the EDR, which requires a legal affidavit and third party verification. An existing eligible SMUD customer may qualify with the retention of at least 50 fulltime equivalent (FTE) jobs in SMUD service territory within two years of the date the EDR agreement is signed. This requires the execution of an affidavit by a company executive attesting that SMUD's EDR was a key factor in the company's decision to stay in SMUD's service area, and third party verification by the Greater Sacramento Area Economic Council (Greater Sacramento).

4. Add a tiered job requirement for areas of high unemployment and poverty, which permits eligible customers in certain designated areas, to create or retain at least 25 jobs in SMUD's service territory. The facility must create at least 25 new FTE jobs to SMUD service territory within two years of the date the EDR agreement is signed if it is located in an area of high unemployment and poverty, known as a Designated Geographic Area (DGA) as determined by the California Franchise Tax Board. Or, an existing SMUD customer may qualify with the retention of at least 25 FTE jobs in SMUD service territory within two years of the date the EDR agreement is signed if it is located in a DGA. This latter qualification would also require the execution of a signed affidavit by a company executive and third party verification by the Greater Sacramento Area Economic Council (Greater Sacramento).

The proposed amendments to the EDR option are detailed in the EDR rate schedule included in Volume 2 of this Report.

Changes to Street, Traffic, and Lighting Rates

1. Rate Increase for Street/Traffic/Lighting Rates

The 2.5 percent rate increases each year in 2016 and 2017 would be applied to all components of the Lighting Schedules except electricity surcharges. The rate increases would not apply to monthly leasing and maintenance charges for street lighting lamps and fixtures. SMUD reviews the street lighting fees annually and posts them separately on its website, www.smud.org.

Miscellaneous Rate Changes

1. SolarShares® Program

Staff recommends development of a rate schedule that establishes SolarShares® Program rate for commercial and residential customers as SMUD procures power from new solar projects in SMUD's service territory.

Purpose

The SolarShares® pilot program began in 2007 offering the benefits of solar energy to residential customers regardless of whether they had suitable sites for, and could afford, their own solar systems. SMUD now plans to expand its SolarShares® program.

Staff recommends development of a new SolarShares® Program rate schedule that establishes a cost-recovery structure to ensure the program is break-even or revenue-positive for SMUD, while offering customers a value comparable to what they could expect from buying or leasing their own solar systems. The proposed SolarShares® Program rate would be available to all residential and commercial customers alike.

The proposed rate schedule captures all system benefits of solar generation, and uses the difference between the cost and the price of solar generation as the basis for the program rate. The rate paid by the customer would be a hedge against normal rate increases for as long as the customer is in the program. Service under the SolarShares® Program rate schedule would be on a first-come, first-served basis based on the availability of SolarShares®-designated generation projects.

Under the proposed SolarShares® Program rate schedule, the pricing would have two components:

1. SolarShares® Energy Cost Component.
2. Delivery Service Charge Component. This component would include the following cost components:
    - Generation capacity
    - Ancillary services

- Delivery services (transmission and distribution)
- Public goods
- Fixed distribution facilities recovered in energy
- Power factor adjustments
- Program administration

The SolarShares® Energy Cost Component will replace the customer's energy-only charge under the customer's current standard rate. The price for this energy-only portion of the SolarShares® charge will not increase above the price applicable on the date the customer enrolls in the program. This component will be adjusted only when more solar projects are added to the program in future years.

SMUD will base the Delivery Service Charge of the SolarShares® Program on the unbundled delivery costs included in the customer's standard rate. This component will be updated as part of SMUD's regular rate actions.

Staff recommends that the two components of the SolarShares® Program rate be posted at www.smud.org no later than January 1, 2017.

Revenue Impact

The proposed SolarShares® Program rate will have no impact on revenue because customers will pay for SMUD's cost-of-service of providing solar generation from the projects to the customer.

Bill Impact

Under this proposal, SolarShares® customers are likely to pay a premium in early years that is above their retail rates to obtain a long-term, fixed-price block of energy from shared solar systems. This premium should decrease over time as installed cost of SolarShares® projects decreases and SMUD's standard rates are adjusted.

Recommendations

Adopt the SolarShares® Program Rate Schedule in Volume 2 of this Report, which includes the following recommendations:

1. Post prices for the SolarShares® Energy Cost and the Delivery Service Charge at SMUD's website, www.smud.org no later than January 1, 2017.

2. Adjust the Delivery Service Charge with every regular rate action by an amount consistent with general rate increases.

3. The Delivery Service Charge will include the following components, which will vary by rate category:
    - Generation Capacity
    - Ancillary services
    - Delivery services (transmission and distribution)
    - Public goods
    - Fixed distribution facilities recovered in energy
    - Power factor adjustments
    - Program administration

Revisions described above are detailed in the SS rate schedules included in Volume 2 of this Report.

2. MED Rate Language Change

Staff recommends a minor language change to the current MED Rate Schedule, so eligible customers enrolled in this program could choose to be served on the new optional RTOU rate starting in January 2016.

Purpose

The current MED Rate Schedule applies to non-time-of-use residential rates. Without a clarification to the current language, MED customers with net energy metering who have rooftop solar panels on their home cannot enroll the new optional RTOU rate in 2016.

Staff recommends to amend the MED Rate Schedule to allow MED Rate customers to participate in the proposed RTOU rate option, this change would require removing the current restriction on Sheet No. 1-MED-1 by deleting the words ‘non-time-of-use’ in section I Applicability.

Based on current billing records, there are approximately 90 customers enrolled in the MED rate with solar net energy metering billing, without this change, these customer won’t be able to choose the new RTOU rate option starting in January 2016.

Revenue Impact

Since the proposed language change is only to clarify the rate eligibility of MED customers for the new optional RTOU rate, there is no impact to revenue.

Recommendation

1. Adopt the following per the rate schedule MED in Volume 2 of this Report:

2. Amend the language of section I. Applicability, to delete the phrase "non-time-of-use" as shown below:

   Applicability

   This Rate Schedule 1-MED applies to customers receiving service under ~~***non-time-of-use***~~ residential rates, who certify, in writing, that the customer or a full-time resident in the customer's home:

   - Is dependent on a qualifying medical equipment device used in the home; or
   - Has a medical condition with special electric heating needs or air conditioning needs.

Revisions described above are detailed in the MED rate schedules included in Volume 2 of this Report.

3. Net Energy Metering Language Change

Staff recommends new language to clarify the current practice of determining SMUD's 5% cap in megawatts for net-energy metering (NEM).

Purpose

The current NEM rate schedule limits application for the schedule until the "total rated generating capacity of customers taking service under this schedule exceeds 5 percent of SMUD's aggregate customer peak demand." The "aggregate customer peak demand" language is from the net-metering legislation in section 2827 of the Public Utilities Code.

Staff recommends clarifying the language in the NEM rate schedule to reflect SMUD's current practice in determining the aggregate customer peak demand which is based on SMUD's net system coincident peak demand.

Based on 5% of SMUD's aggregate net system peak demand, SMUD's NEM program has a cap of approximately 160 MW.

Revenue Impact

Since the proposed language change is only to clarify SMUD's current practice in the rate schedule, there is no impact to revenue.

Recommendation

1. Adopt the following per the rate schedule NEM in Volume 2 of this Report:

2. Amend the language of section III. Conditions of Service, B. Limitations to add the wording term “based on net system peak” to the following line to read:

   *…”SMUD’s aggregate customer peak demand **based on net system coincident peak.**”*

Revisions described above are detailed in the NEM rate schedules included in Volume 2 of this Report.

4. Rule 4 Update

Purpose

Under Board Resolution No. 97-04-13, customer tailored rates are available to customers and would be subject to agreement between the customer and SMUD on mutually beneficial terms and conditions. The agreement is also subject to Board approval if the contract term is longer than one year. A reference to this Board resolution would provide essential background on rule 4.

Revenue Impact

The language changes would have no impact on revenue.

Bill Impact

The language change would not impact any participating or nonparticipating customer’s bill.

Recommendations

1. Adopt the following per the rate schedules in Volume 2 of this Report:

2. Add the following to rule 4:

> *"7. In the case of Customer Tailored Rate arrangements, a contract is required* ***per previously adopted Board resolution****."*

Revisions described above are detailed in Rule and Regulation 4 included in Volume 2 of this Report.

Detail of Rate Changes

Residential Rates

System Infrastructure Fixed Charge for All Residential Rates

Charge Component	Unit	Adopted*** 2016	Adopted*** 2017
System Infrastructure Fixed Charge	per month	$18.00	$20.00

Residential Base Usage Allowances for Tiered Energy Rates (kWh)

Season and Special Allowances			Adopted** 2016	Adopted** 2017
Summer (June - September)				
	All Rates	Standard	1,100	All kWh
		With Well	1,400	
Winter (December - March)				
	Non-electric Heat	Standard	1,000	All kWh
		With Well	1,300	
	Electric Heat	Standard	3,000	All kWh
		With Well	3,000	
Spring and Fall (April-May, October-November)				
	Non-electric Heat	Standard	1,000	All kWh
		With Well	1,300	
	Electric Heat	Standard	3,000	All kWh
		With Well	3,000	

Residential Energy Assistance Program Rate

Charge Component	Unit	Adopted** 2016	Adopted** 2017
System Infrastructure Fixed Charge	per month	$7.50	$8.50
Amount of SIFC discount	per month	-$10.50	-$11.50
Energy Price discount	percent	44.0%	48.0%
Maximum credit*	per month	$43.00	$42.00
Maximum credit with wells*	per month	$55.00	$54.00

* Maximum credit includes discount on both SIFC and energy
** These rate charges were adopted by the Board in resolution 13-08-01 dated August 15, 2013.
*** These rate charges were adopted by the Board in resolution 11-08-06 dated August 4, 2011

Residential Rates (cont.)

Residential Pricing for Tiered Energy Rates

Season and Charge Component	Unit	Proposed 2016	Proposed 2017
Summer (All Rates)			
Base Usage	per kWh	$0.1177	$0.1291
Base-Plus	per kWh	$0.1928	$0.1291
Winter, Spring, Fall (Standard Rates)			
Base Usage	per kWh	$0.1068	$0.1128
Base-Plus	per kWh	$0.1861	$0.1128
Winter (Closed Electric Rate)			
Base Usage	per kWh	$0.1038	$0.1128
Base-Plus	per kWh	$0.1627	$0.1128
Spring and Fall (Closed Electric Rate)			
Base Usage	per kWh	$0.1038	$0.1128
Base-Plus	per kWh	$0.1627	$0.1128

Optional Residential Time-of-Use Energy Rates (RTOU)

Season and Charge Component	Unit	Proposed 2016	Proposed 2017
Peak	per kWh	$0.1467	$0.1485
Off-Peak	per kWh	$0.0867	$0.0866
Summer Super Peak	per kWh	$0.3093	$0.3161
Electric Vehicle Credits*	per kWh	-$0.0150	-$0.0150

* Credits apply to applicable time-of-use period between midnight and 6 a.m. under Residential Time-of-Use rate.

Miscellaneous Residential Pricing

Charge Component	Unit	Proposed 2016	Proposed 2017
Three-phase power	per month	$41.90	$42.95
Standby generation (Secondary level)	per kW	$6.41	$6.57

Agricultural Rates

Season and Charge Component	Unit	Proposed 2016	2017
Non-Demand ASN Rate (30 kW and below)			
System Infrastructure Fixed Charge	per month	$10.65	$10.90
Winter kWh	per kWh	$0.1179	$0.1209
Summer kWh	per kWh	$0.1291	$0.1324
Demand ASD Rate (Over 30 kW)			
System Infrastructure Fixed Charge	per month	$24.65	$25.30
Site Infrastructure Charge <= 30 kW	per kW	$0.00	$0.00
Site Infrastructure Charge > 30 kW	per kW	$2.43	$2.49
Winter First 8,750 kWh	per kWh	$0.1305	$0.1338
Winter Additional kWh	per kWh	$0.1024	$0.1050
Summer First 8,750 kWh	per kWh	$0.1251	$0.1283
Summer Additional kWh	per kWh	$0.0906	$0.0929
Non-Demand Time-of-Use AON Rate (30 kW and below)			
System Infrastructure Fixed Charge	per month	$14.25	$14.60
Winter On-Peak	per kWh	$0.1355	$0.1389
Winter Off-Peak	per kWh	$0.1156	$0.1185
Summer On-Peak	per kWh	$0.1965	$0.2015
Summer Off-Peak	per kWh	$0.1057	$0.1083
Demand Time-of-Use AOD Rate (Over 30 kW)			
System Infrastructure Fixed Charge	per month	$85.80	$87.95
Winter Site Infrastructure Charge	per kW	$2.43	$2.49
Winter On-Peak	per kWh	$0.1350	$0.1384
Winter Off-Peak	per kWh	$0.1146	$0.1175
Summer Site Infrastructure Charge	per kW	$3.39	$3.48
Summer On-Peak	per kWh	$0.2091	$0.2143
Summer Off-Peak	per kWh	$0.1115	$0.1142

Small Commercial Rates (0–299 kW)

		Adopted*	
Non-Demand < =20 kW (GSN_T)	**Unit**	2016	2017
System Infrastructure Fixed Charge	per month	$18.00	$20.00

Small Commercial Energy Assistance Rate		Adopted*	
System Infrastructure Fixed Charge		2016	2017
Non-Demand < = 20 kW (GSN_T)	per month	$11.10	$13.10

		Proposed	
Season and Charge Component	**Unit**	2016	2017
Non-Demand < =20 kW (GSN_T)			
Winter kWh	per kWh	$0.1278	$0.1290
Summer Off-Peak kWh	per kWh	$0.1081	$0.1088
Summer On-Peak kWh	per kWh	$0.2922	$0.2979
Non-Demand, Non-Metered Rate (GFN)			
System Infrastructure Fixed Charge	per month	$8.65	$8.90
Year-round energy	per kWh	$0.1290	$0.1303
Demand Rate 21- 299 kW (GSS_T)			
System Infrastructure Fixed Charge	per month	$23.70	$24.30
Site Infrastructure Charge	per kW	$7.32	$7.50
Winter Energy	per kWh	$0.0986	$0.1011
Summer Off-Peak kWh	per kWh	$0.0874	$0.0896
Summer On-Peak kWh	per kWh	$0.2517	$0.2580

Small Commercial Energy Assistance Rate		Proposed	
System Infrastructure Fixed Charge		2016	2017
Demand Rate 21- 299 kW (GSS_T)	per month	$15.40	$15.80

*These rate charges were adopted by the Board in resolution 11-08-06 dated August 4, 2011.

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

Season and Charge Component	Unit	Proposed 2016	Proposed 2017
Service at Secondary Voltage Level (GUS_S)			
System Infrastructure Fixed Charge	per month	$104.15	$106.85
Site Infrastructure Charge	per kW	$3.67	$3.76
Winter Off-Peak	per kWh	$0.0800	$0.0820
Winter On-Peak	per kWh	$0.1006	$0.1032
Summer Super-Peak Demand Charge	per kW	$7.38	$7.57
Summer Off-Peak	per kWh	$0.1052	$0.1079
Summer On-Peak	per kWh	$0.1323	$0.1357
Summer Super-Peak	per kWh	$0.1936	$0.1986
Service at Primary Voltage Level (GUP_S)			
System Infrastructure Fixed Charge	per month	$104.15	$106.85
Site Infrastructure Charge	per kW	$3.29	$3.37
Winter Off-Peak	per kWh	$0.0756	$0.0775
Winter On-Peak	per kWh	$0.0951	$0.0975
Summer Super-Peak Demand Charge	per kW	$6.74	$6.91
Summer Off-Peak	per kWh	$0.1001	$0.1026
Summer On-Peak	per kWh	$0.1275	$0.1307
Summer Super-Peak	per kWh	$0.1842	$0.1890

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

Season and Charge Component	Unit	Proposed 2016	Proposed 2017
Service at Secondary Voltage Level (GUS_M)			
System Infrastructure Fixed Charge	per month	$104.15	$106.85
Site Infrastructure Charge	per kW	$2.75	$2.82
Winter Off-Peak	per kWh	$0.0786	$0.0806
Winter On-Peak	per kWh	$0.0992	$0.1017
Summer Super-Peak Demand Charge	per kW	$6.74	$6.91
Summer Off-Peak	per kWh	$0.0997	$0.1022
Summer On-Peak	per kWh	$0.1295	$0.1328
Summer Super-Peak	per kWh	$0.1880	$0.1929
Service at Primary Voltage Level (GUP_M)			
System Infrastructure Fixed Charge	per month	$104.15	$106.85
Site Infrastructure Charge	per kW	$2.43	$2.49
Winter Off-Peak	per kWh	$0.0744	$0.0763
Winter On-Peak	per kWh	$0.0938	$0.0962
Summer Super-Peak Demand Charge	per kW	$6.19	$6.35
Summer Off-Peak	per kWh	$0.0949	$0.0973
Summer On-Peak	per kWh	$0.1249	$0.1281
Summer Super-Peak	per kWh	$0.1790	$0.1836
Service at Transmission Voltage Level (GUT_M)			
System Infrastructure Fixed Charge	per month	$275.90	$282.95
Site Infrastructure Charge	per kW	$2.00	$2.05
Winter Off-Peak	per kWh	$0.0728	$0.0746
Winter On-Peak	per kWh	$0.0904	$0.0927
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0934	$0.0958
Summer On-Peak	per kWh	$0.1170	$0.1200
Summer Super-Peak	per kWh	$0.1737	$0.1782

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

Season and Charge Component	Unit	Proposed	
		2016	2017
Service at Secondary Voltage Level (GUS_L)			
System Infrastructure Fixed Charge	per month	$104.15	$106.85
Site Infrastructure Charge	per kW	$3.88	$3.98
Winter Off-Peak	per kWh	$0.0825	$0.0846
Winter On-Peak	per kWh	$0.1041	$0.1067
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00
Summer Off-Peak	per kWh	$0.1036	$0.1062
Summer On-Peak	per kWh	$0.1294	$0.1327
Summer Super-Peak	per kWh	$0.1621	$0.1662
Service at Primary Voltage Level (GUP_L)			
System Infrastructure Fixed Charge	per month	$104.15	$106.85
Site Infrastructure Charge	per kW	$3.72	$3.82
Winter Off-Peak	per kWh	$0.0771	$0.0791
Winter On-Peak	per kWh	$0.0990	$0.1015
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0944	$0.0969
Summer On-Peak	per kWh	$0.1217	$0.1248
Summer Super-Peak	per kWh	$0.1336	$0.1370
Service at Transmission Voltage Level (GUT_L)			
System Infrastructure Fixed Charge	per month	$275.90	$282.95
Site Infrastructure Charge	per kW	$2.96	$3.04
Winter Off-Peak	per kWh	$0.0755	$0.0774
Winter On-Peak	per kWh	$0.0954	$0.0978
Summer Super-Peak Demand Charge	per kW	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0931	$0.0955
Summer On-Peak	per kWh	$0.1140	$0.1169
Summer Super-Peak	per kWh	$0.1298	$0.1331

Temperature Dependent Rate

Season and Charge Component	Unit	Proposed 2016	Proposed 2017
System Infrastructure Fixed Charge	per month	$275.90	$282.95
Site Infrastructure Charge	per kW	$0.53	$0.54
Winter Off-Peak	per kWh	$0.0683	$0.0700
Winter On-Peak	per kWh	$0.0954	$0.0978
Summer Super-Peak Demand Charge			
Heat Storm	per kW	$5.54	$5.68
Extremely Hot	per kW	$5.22	$5.35
Very Hot	per kW	$0.96	$0.99
Mild to Hot	No Charge	$0.00	$0.00
Summer Off-Peak	per kWh	$0.0860	$0.0881
Summer On-Peak	per kWh	$0.1140	$0.1169
Summer Super-Peak	per kWh	$0.1298	$0.1331

Combined Heat & Power (CHP) Distributed Generation

Charge Component	Unit	Proposed 2016	Proposed 2017
Reserved Capacity Charge			
Secondary	per kW	$5.15	$6.30
Primary	per kW	$5.15	$6.30
Subtransmission	per kW	$4.60	$6.05

Miscellaneous Commercial Charges

Charge Component	Unit	Proposed 2016	Proposed 2017
Power Factor Adjustment	per excess kVar x kWh	$0.0106	$0.0108
Power Factor Waiver	per excess kVar	$0.2787	$0.2857
Standby Charges for Customer Generation			
Secondary Voltage Service	per kW of contract capacity	$6.41	$6.57
Primary Voltage Service	per kW of contract capacity	$5.07	$5.20
Subtransmission Voltage Service	per kW of contract capacity	$2.56	$2.62

Outdoor Street and Traffic Lighting Rates

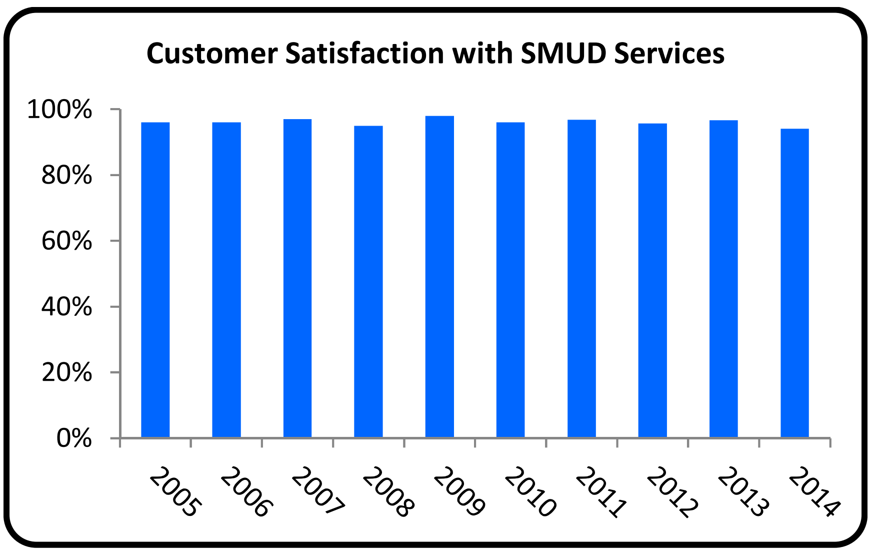
		Proposed	
Metered Streetlighting			
Customer owned and maintained (COM_M)		2016	2017
System Infrastructure Fixed Charge	per month	$8.85	$9.05
Year-round energy charges	per kWh	$0.0765	$0.0783
Unmetered Streetlighting Rates			
Monthly charge (per rated wattage of lamp & ballast)			
Customer-owned and maintained (COM)		$0.0255	$0.0261
SMUD (District) owned and maintained (DOM)		$0.0255	$0.0261
Customer-owned SMUD (District) maintained (CODM)		$0.0255	$0.0261
TC ILS Traffic Control -- Intersection Lighting Service			
System Infrastructure Fixed Charge	per month	$5.25	$5.40
Year-round energy charges	per kWh	$0.0959	$0.0983
TSS Traffic Signal Service SL_TSF (Closed)			
< 70 watts (per unit)		$3.80	$3.90
> 70 watts (per lamp per watt)		$0.0267	$0.0273
Minimum monthly charge		$3.80	$3.90
NLGT Outdoor Lighting Service			
Monthly charge (per rated wattage of lamp & ballast)		$0.0255	$0.0261

Information on SMUD Performance

Customer Satisfaction

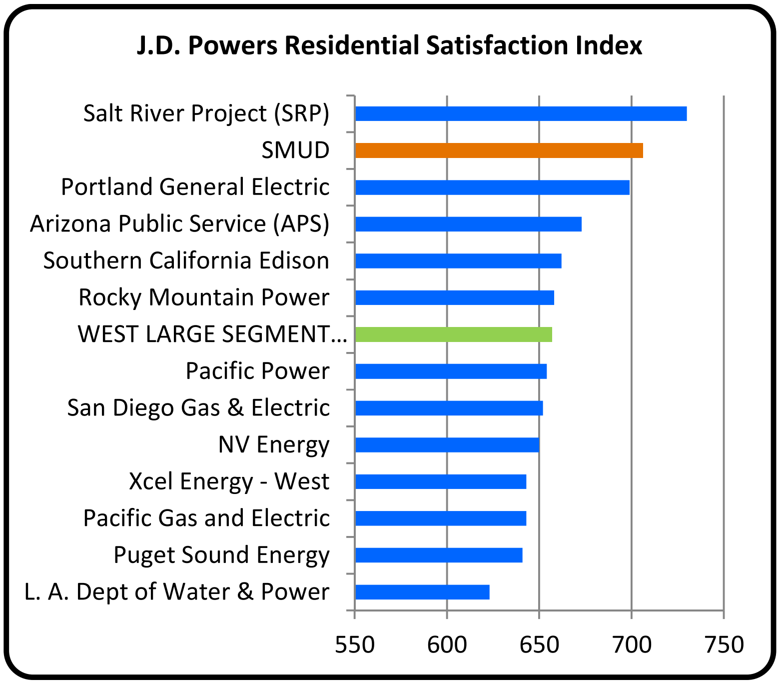
SMUD continues to earn high marks of satisfaction from its customer-owners. The satisfaction statistics in the following chart provide a summary average of ongoing follow-up surveys SMUD conducts with customers on services we provide including troubleshooting problems, new connects and tree trimming services. The results show customer satisfaction ratings have been 93 percent or higher for the past decade.

Figure 17. Customer Satisfaction with SMUD



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 2014 survey represented in Figure 18. California Utilities Satisfaction Ranking shows SMUD ranked second among the major utilities in the west.

Figure 18. California Utilities Satisfaction Ranking



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.

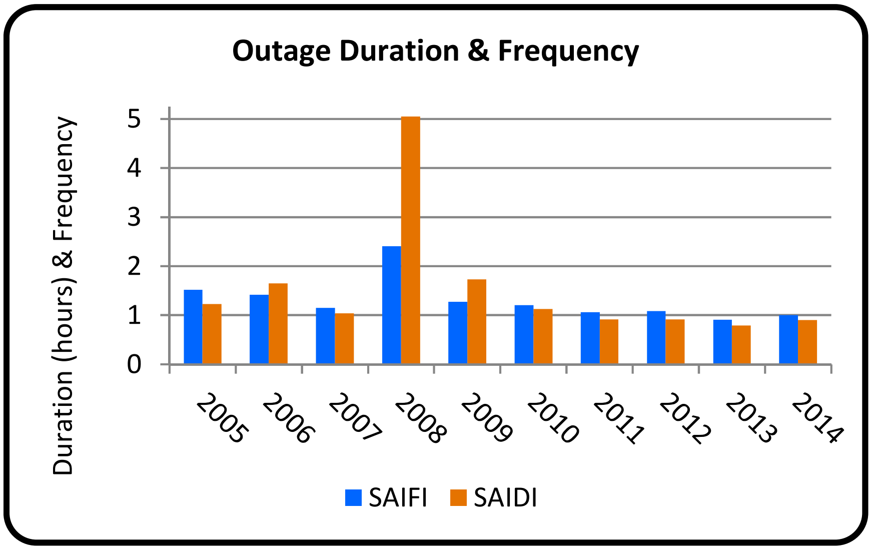
For SAIDI, SD-4 limits the average duration of outages per customer per year:

1. For a major event, 67.6 to 93.3 minutes.
2. Excluding a major event, 49.7 to 68.7 minutes.

In 2013 and 2014, 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.

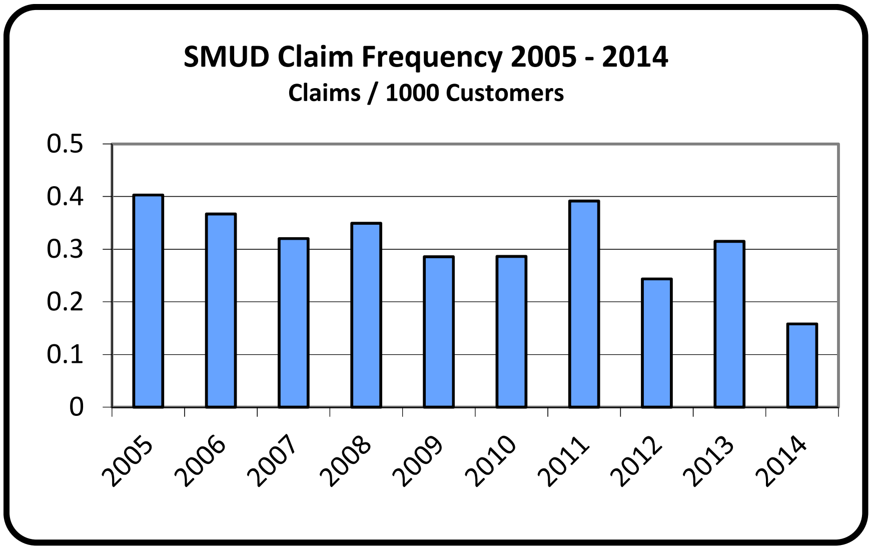
Figure 19. Outage Duration and Frequency



SMUD Frequency of Claims

As illustrated in Figure 20, the most recent 2014 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 2014 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).

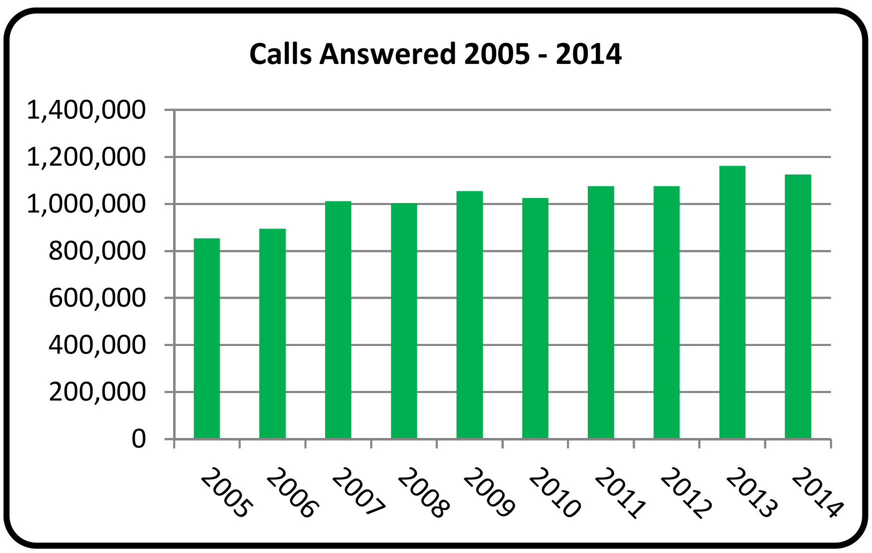
Figure 20. Claim Frequency 2005 - 2014



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 21. 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 all residential energy rates by 2.5 percent effective January 1, 2016, and by 2.5 percent effective January 1, 2017, 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 commercial (except small commercial GSN_T) and agricultural rate components by 2.5 percent effective January 1, 2016, and by 2.5 percent effective January 1, 2017 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 the small commercial GSN_T energy rate by 2.5 percent effective January 1, 2016, and by 2.5 percent effective January 1, 2017, 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 street, traffic, and lighting rate components, except surcharges, and maintenance and equipment charges, by 2.5 percent effective January 1, 2016, and by 2.5 percent effective January 1, 2017, 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 adopt a new optional residential time-of-use rate (RTOU), close the optional TOU1 and TOU2 rates, discontinue the RTT/RTES credit, and permit EAPR and MED customers to opt-in to the new RTOU rate 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 adopt a residential plug-in electric vehicle (PEV) charging credit for the RTOU rate, discontinue the closed RTEV rate, and modify language in the RTOU rate for EV customers 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 amend the notice provision for Conservation Days in the Smart Pricing Option (SPO) rate 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 move the Economic Development Rate (EDR) option to a new EDR rate schedule and expand eligibility for the rate may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

17.0 The proposed action to adopt a SolarShares® rate schedule for residential and commercial customers 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.

18.0 It can be seen with certainty that there is no possibility that the proposed action to clarify language in the Net Energy Metering rate schedule 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 update Rule & Regulation 4 to include reference to a Board resolution may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

Energy Conservation Resources

Energy Efficiency Tips

We have suggestions to help you stay comfortable while conserving energy, no matter what the season. These and other tips can be found at *https://www.smud.org/en/residential/save-energy/*, and *https://www.smud.org/en/business/save-energy/*

Wintertime

Thermostat

For every two degrees that you lower your **thermostat** during the winter, you save approximately 10 percent on the operating cost of your heater. So it pays to dress in layers and add a blanket to your bed.

- Keep the thermostat on your heater at 68 degrees when you're home, and 55 degrees at night or when no one's there.
- If you have a heat pump, set the lower temperature at 63 degrees. That's because heat pumps are designed to maintain temperatures within a narrower range.
- Use a programmable thermostat.
- Don't close doors or shut off registers in rooms. It puts added strain on the central heating system.
- Open drapes and shades on sunny days to let in the sun's heat. Close them at night and on cloudy days.
- Get your heating system professionally checked once a year and change filters regularly to keep the unit running efficiently.

Portable heaters

- Using portable heaters can be surprisingly costly. Use them only to warm rooms that don't get enough heat or in homes without central heating systems. Turn them off when nobody's in the room.
- Choose the type of heaters that sound an alarm or turn off automatically if they are tipped over.
- Indoors, never use propane heaters, hibachis, barbecues, or any heater with an open flame. They produce carbon monoxide, which is a clear, odorless gas that can kill humans and animals.

Summertime

The easiest way to keep your home cool is not to let it heat up in the first place. So you want good insulation, caulking and weather stripping. Shade trees, overhangs and awnings help, too.

No-cost, low-cost conservation tips

- Keep windows closed during the heat of the day, and draw blinds and draperies to keep the heat out.
- Set the thermostat at 78 degrees or higher. You'll save about 5 to 10 percent on the operating cost of an air conditioner for every two degrees of cooling you're willing to give up.
- Change the filter regularly. An air conditioning unit with dirty filters can use 5 to 10 percent more energy.
- Use fans instead of the central air conditioning unit whenever possible. Individual fans cost about 90 percent less to operate.
- Adjust ceiling fans to turn counter-clockwise in the summer. Usually this means that the switch on the fan should be in the "down" position.
- Turn off unnecessary lights.
- Reduce appliance usage during hot afternoons and evenings. Many appliances create heat and moisture, making the air conditioner work harder. Use your range or stove, dishwasher, dryer, washing machine, and other heat-producing equipment in the early morning or late evening when temperatures are cooler.
- Assemble a clothesline in the yard and give your dryer a break.
- Prepare cold meals such as salads and sandwiches. Cook hot meals only late in the evening, when it's cooler. Or put your grill to work.
- Microwaves use less than half the power of a conventional oven. Consider using your microwave to cook or reheat your dinner during peak hours.
- If you have a refrigerator or freezer in your garage that isn't full, consider getting rid of it. These appliances tend to be older and hog energy.

Year-round

No matter what the season, you'll save money by saving energy.

Water heaters

- Wrap the water heater with a water heater blanket to keep heated water warm.
- Lower the temperature on the water heater to about 120 degrees. This is sufficient for most household tasks, and it would save energy.

- Install low-flow showerheads, and fix any leaky faucets. A small drip can waste a bathtub full of hot water each month.

Weatherization

Weather stripping and caulking can help keep your home comfortable:

- If your house is more than 15 years old, check the insulation in the attic and floor. Even if the insulation met requirements when it was installed, it has most likely settled significantly over time.
- R-38 is standard for current homebuilders, along with R-13 in the walls.
- Because up to 20 percent of the heat or cooling inside a typical house is lost through the windows, check the weather stripping and caulking around doors and windows.
- Curtains or blinds should be opened during the day to let sunlight in, which would also help heat the home. Curtains should be closed at night to act as additional insulation for windows.

Lighting

- Consider replacing any incandescent light bulbs in your home with energy-efficient compact fluorescent lights (CFLs) or light-emitting diodes (LEDs).These bulbs use a fraction of the electricity that incandescent bulbs use.
- To make sure outdoor lights aren't on during the day, install light-sensitive controls or timers to automatically turn off lights when they’re not needed.
- Decorative lights in the yard are a fun part of summer - but choose solar-powered lights or replace the bulbs with CFLs or LEDs.
- Desk lamps focus the light where you actually need it, rather than wasting energy lighting the entire room.

Appliances

- When you're not using lights and appliances, turn them off.
- Some newer TVs, DVD players and other electronic appliances have a "sleep" or "stand-by" mode that allows them to start immediately when you turn them on. However, that means they are constantly drawing a small amount of energy. When possible, you should switch this option off. Or, use smart strips so that you can easily turn off multiple appliances at once.
- Use appliances such as dishwashers, washing machines, and clothes dryers only when they are full.

- Refrigerators are second only to the heating/air conditioning system for using the most amount of energy in your home. Help the refrigerator stay efficient by cleaning the coils at the back or bottom of the unit.
- When you are ready to replace an appliance, purchase an Energy Star® model. They're between 15 percent and 40 percent more efficient than older models, and would save you energy for years to come.

Going on vacation?

- In summer, set your air conditioner thermostat at 85 degrees or higher. In colder weather, set your heater to 60 degrees or lower.
- Put lights on a timer to save energy and give the house a "lived in" look.
- Draw the drapes on windows facing south and west.
- Shift your water heater to the lowest setting.
- Check to make sure no faucets inside or out are dripping.

SMUD Programs and Web Links

Additional information and assistance is available through the following links.

Rebates, incentives & 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/

Home rebates & energy solutions
Your one-stop place to locate rebates and energy saving solutions for your home.

Home Performance Program
You may qualify for rebates under this special program that takes a whole-house approach to saving energy.

Appliances
We offer rebates to help you save on energy-efficient appliances for your kitchen and laundry room.

Heating & cooling
We have rebates and incentives to help you keep your home cool in the summer and warm in the winter.

Lighting
Energy-efficient compact fluorescent lights and LEDs are better than ever. From time to time we provide incentives to retailers, or directly to you, to make these lights more affordable.

Pool & spa
Check out our recommendations to lower the cost of keeping your pool or spa clean and running smoothly.

Energy Efficiency Financing
SMUD offers a financing program that helps customers replace high energy use equipment with more efficient models.

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 would 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 would 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 would 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 1.45 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 would assure all customer energy requirements are met. This would 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 would 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 would 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 employees and the public is a core value of SMUD.

Through continuous improvement, SMUD would be recognized as a leader in employee safety while also assuring the safety of the public related to SMUD operations and facilities. This includes a comprehensive approach to monitoring organizational and public safety performance.

Therefore, SMUD would continue to improve safety results to:

Workplace Safety

a) Reduce SMUD's injury severity rate to 1.4 by 2020, as measured by OSHA's Days Away Restricted Time (DART), a rate that demonstrates strong safety performance.

b) Provide timely, quality health care for injured employees that aids their recovery while maintaining positive financial performance of the workers' compensation program.

Public Safety

a) Track and report injuries to the public related to SMUD operations or facilities.

b) Implement measures to protect the public from injuries related to SMUD operations or facilities.

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

b) SMUD would 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 would promote the efficient use of energy by its customer-owners.

d) SMUD would 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 the SMUD workforce, the available workforce, and the Sacramento region. The report shall also provide information on veterans as a part of SMUD's workforce.

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 would 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:[7]

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 would 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 would include environmental attributes, local capacity value and other customer costs reduced by an efficiency measure.

Year	Gigawatt Hours	Megawatts
2014	172	24.6
2015	175	25.0
2016	178	25.4
2017	180	25.7
2018	182	26.0
2019	184	26.3
2020	186	26.6
2021	187	26.7
2022	189	27.0
2023	191	27.3
Total	1824	260.6

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.

[7] Note: These goals do not take into account the potential impacts of the electrification of transportation.

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

SD-11 Local control

Supporting and strengthening the public power business model is a core value. Local decision making and flexibility are essential to effective and responsible local governance. Community-owned utilities are primarily accountable to customer-owners, not stockholders. Community citizens have a direct voice in public power decisions.

Preservation of the business model is vital to ensure public power systems continue to provide innovative solutions tailored to best meet the needs of their customers and communities.

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. 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 conduct applicable to all employees.

Among other things the code of conduct 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 (i) reporting suspected violations of the code of conduct and policies through multiple channels, including an anonymous hotline, and (ii) investigating suspected violations.

SD-16 Information Management and Security Policy

Proper management of cyber and physical information is a core value. Robust information management practices are critical to effective risk management and to ensure regulatory compliance, business resiliency and customer satisfaction. SMUD shall take prudent and reasonable measures to ensure:

a) Information Security: SMUD, customer, employee and third party information and SMUD information systems are protected from unauthorized access, use, disclosure, disruption, modification, or destruction.

b) Customer Privacy: SMUD would annually notify customers about the collection, use and dissemination of sensitive and confidential customer information. Except as provided by law or for a business purpose, SMUD would not disseminate sensitive and confidential customer information to a third party for non-SMUD business purposes unless the customer first consents to the release of the information. Where sensitive and confidential information is disseminated for a business purpose, SMUD would ensure: (i) the third party has robust information practices to protect the sensitive and confidential customer information, and (ii) use of the information by the third party is limited to SMUD's business purpose. SMUD would maintain a process that identifies the business purposes for which SMUD would collect, use and disseminate sensitive and confidential customer information.

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

Effectively balancing and managing risk to further SMUD's policies and business goals is a core value of SMUD.

Therefore:

SMUD would implement and maintain an integrated enterprise risk management process that identifies, assesses, prudently manages and mitigates a variety of risks facing SMUD, including financial, supply, operational, physical security, climate change, legal, legislative and regulatory, 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 the economic vitality of our region and the growth of our customer base is a key value of SMUD. Therefore, SMUD shall exercise strategic leadership and actively participate in regional economic development.

Specifically:

a) SMUD shall promote innovation while maintaining rate affordability and balancing the other strategic directions.

b) SMUD shall align its economic development activities with regional economic development initiatives.

c) SMUD shall assist in retaining, recruiting and growing commercial and industrial rate-paying customers.

d) SMUD shall offer economic development rates and program incentives.

e) SMUD shall offer a contracting program for certified small businesses who are rate-paying customers.

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 would 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 would 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 would annually commit up to one-half of one percent of its annual gross electric sales revenue to system enhancements. The proposed projects would be subject to SMUD's annual budget approval process, and uncommitted funds from any given year would not be carried over to future years. Funding would 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 would 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 Chief Executive Officer and 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. The proposed rate increases are based upon cost-of-service principles, because the primary cost-drivers of this rate increase are increased costs for renewable energy and escalation in commodity and O&M expenses. 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 first based on pre-Proposition 26 legislative policy, and is therefore grandfathered to the extent it shows that any rates exceed the cost of services for which they are imposed. SMUD's two previous rate actions adopted after the effective date of Proposition 26 are cost-justified under the analysis in the General Manager's Report and Recommendation on Rates and Services that supported the adoption of Board Resolution No. 11-08-06 in 2011 and Resolution No. 13-08-01 in 2013. For the instant rate action, as justified by this Report, the proposed rate increases are made on an across-the-board basis to reflect cost increases of proportionate impact on all customer classes and therefore do not require reexamination of the allocation of costs among classes or of class definitions.

Five rate proposals in this Report require additional discussion: 1) expansion of the Economic Development Rate (EDR) for certain eligible commercial customers, 2) a new rate that is lower for residential electric vehicle (PEV) customers that elect to charge between 12 a.m. to 6 a.m., 3) a new optional time-of-use (TOU) rate for residential customers, 4) a new SolarShares® rate, and 5) enable medical equipment discount program (MED Rate) customers to take service under a time-of-use rate

1. Economic Development Rate

The current EDR program was adopted on April 19, 2001 by Board Resolution No. 01-04-19. This program provides power at less than cost to users that promote the economic development objectives of SMUD. It is a pre-Proposition 26 legislative policy that is grandfathered by Proposition 26, which does not vitiate local government policies that predate it. The EDR, as it existed in November 2010, and as it is proposed in this Report, therefore complies with Proposition 26.

The current EDR provides a temporary discount from the standard rate for commercial/industrial customers with demand exceeding 300 kW that create a minimum of 50 new jobs and add load at a new or expanded site. If a customer agrees to be a full-service customer for five years, SMUD would provide a 5% discount in year one, a 3% discount in year two, a 1 % discount in year three, and no discount for the last two years. SMUD limits eligibility for the economic development rate to those customers in four North American Industrial Classification System (NAICS) designations.

Staff proposes to expand eligibility for the EDR. While the proposal does not modify the schedule of discounts over the five-year period or the 300kW demand threshold, it expands eligibility in two ways. First, it provides that a customer may also retain 50 jobs, not just create 50 jobs, and establishes a 25 jobs creation/retention standard for customers located in a high unemployment and poverty area in SMUD’s service territory. Second, it broadens the types of customers eligible by adding ten additional NAICS designations.

SMUD historically has over-recovered costs from rates paid by commercial/industrial customers with demand of 300 kW or greater and its policy to do so is pre-Proposition 26 legislation that is grandfathered by the measure. SMUD's existing rates for the commercial/industrial customers that are eligible for the EDR discount all exceed the cost-of-service consistently with that pre-Proposition 26 policy. The proposed changes to the EDR reduce restrictions and broaden the number of customers who are eligible to receive the discount. However, even under the EDR, these customers would still be paying above their cost-of-service as permitted by pre-Proposition 26 legislative choices which survive it. Consequently, because the proposed rate changes decrease the extent to which newly eligible customers pay more than the cost-of-service (i.e., bringing them closer to service cost), they do not violate Proposition 26.

2. Plug-in Electric Vehicle Credit

Staff also proposes a new PEV credit that is 1.5 cents/kWh less than otherwise applicable rates between the hours of 12 a.m. – 6 a.m. for customers with plug-in electric vehicles to encourage them to charge those vehicles in off-peak hours when power is cheapest to produce and distribute. SMUD's analysis demonstrates that costs to power PEV from midnight to 6 a.m. are approximately 1.5 cents/kWh lower than SMUD’s costs to serve the new PEV load during other periods of the day due to reduced energy and capacity costs, as well as less demand on transformers and other infrastructure. Based on the results of SMUD's current pilot programs, the proposed rate would encourage customers to shift PEV charging to this six-hour period. Because the proposal is a voluntary opt-in rate (i.e., it is not “imposed”) and it reflects the reasonable cost-of-service, it complies with Proposition 26.

3. Residential Time-of-Use Rate (RTOU)

The rates proposed to be adopted also include an optional, RTOU rate for residential customers that allow those with appropriate meters to choose to pay for power based on the time of day, providing cheaper rates in off-peak times when power is less costly for SMUD to produce or purchase and to distribute. These rates raise no Proposition 26 issues because they are voluntarily undertaken by customers who opt-in to the program (i.e., they are not “imposed”) and they reflect cost-of-service in any event, as demonstrated by this Report.

4. SolarShares® Program Rate

Similarly, these rates incorporate a SolarShares® Program rate that provides solar power from local solar farms to customers who elect to purchase blocks (shares) of the solar power at the price which SMUD procures the solar power. These rates, too, raise no Proposition 26 issues because they are voluntarily undertaken (and not “imposed”) and reflect cost-of-service, as demonstrated by this Report.

5. Medical Equipment Discount Program (MED Rate)

Currently, customers enrolled in the MED Rate may not be on a non-TOU rate. Staff proposes to allow customers enrolled in the MED Rate to take service under the new optional RTOU rate. The MED Rate program was adopted on June 16, 2009 by Board Resolution No. 09-06-05 and provides a discount for eligible residential customers up to $15.00 per billing period that cannot exceed the monetary value of energy consumed. The eligibility criteria and discount will be maintained without change in the form it existed in November 2010 and therefore grandfathered and complies with Proposition 26.

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 charges for use of property and fines and penalties 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

Blighted area
An area of a city, often a large metropolitan city, in which most buildings are abandoned or in severe disrepair. See also brownfield site, greenfield site.

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

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.

Economic multiplier
Estimated number by which the amount of a capital investment (or a change in some other component of aggregate demand) is multiplied to give the total amount by which the regional income is increased. This multiplier takes all direct and indirect benefits from that investment (or from the change in demand) into account. Expressed as the reciprocal of the marginal propensity to save.

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.

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 would reduce its greenhouse gas emissions to only 10 percent of its 1990 level by 2050.

Holidays – for off-peak pricing
Off-peak pricing shall apply during the following holidays:

Holiday	Month	Date
New Year's Day	January	1
Martin Luther King Jr. Day	January	Third Monday
Lincoln's Birthday	February	12
Presidents Day	February	Third Monday
Memorial Day	May	Last Monday
Independence Day	July	4
Labor Day	September	First Monday
Columbus Day	October	Second Monday
Veterans Day	November	11
Thanksgiving Day	November	Fourth Thursday
Christmas Day	December	25

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.

Net Energy Metering

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

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.”

Peaker plant

Peaking power plants, also known as peaker plants, and occasionally just "peakers," are power plants that generally run only when there is a high demand.

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.

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.

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).

PV

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

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).

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. 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. Board Policy SD-4 on Reliability sets the SAIFI, excluding major events, at between .85 to 1.14 outages per customer per year.

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.

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.

Time-of-Use Rate

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

Audited Financial Statements

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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, 2014 and 2013, 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, 2014 and 2013, 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.

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 20, 2015

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

Using this Financial Report

This annual financial report for Sacramento Municipal Utility District (SMUD) consists of management's discussion and analysis and the consolidated financial statements, including notes to the financial statements. The Consolidated Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position and the Statements of Cash Flows.

SMUD maintains its accounting records in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). 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 accounting for contributions of utility property in aid of construction.

Overview of the Financial Statements

The following discussion and analysis of the financial performance of SMUD provides an overview of the financial activities for the years ended December 31, 2014 and 2013. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes, which follow this section.

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, and other cash uses such as payments for debt service and capital additions.

The Notes to the consolidated financial statements provide additional detailed information to support the financial statements.

Nature of Operations

Under provisions of California's Municipal Utility District Act, the citizens of Sacramento voted in 1923 to form their own electric utility – SMUD. The independently run community-owned utility began operations on December 31, 1946 and is not subject to regulation or oversight by the California Public Utilities Commission (CPUC). It is now the sixth largest community-owned electric utility in the nation.

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 with a population of approximately 1.4 million – most of Sacramento County and small, adjoining portions of Placer and Yolo counties. Its purpose is to provide solutions for meeting customers' electrical energy needs with a vision of empowering customers with solutions and options that increase energy efficiency, protect the environment, reduce global warming, and lower the cost to serve the region.

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 August 2013, the Board approved a 2.5 percent rate increase effective January 1, 2014, and an additional 2.5 percent rate increase effective January 1, 2015. The rate increases were designed to achieve a fixed charge ratio of at least 1.5. The Board also approved the gradual convergence of the residential two tier rate structure between 2014 and 2017, resulting in a single tier rate structure in 2017. On a system-wide basis, the rate tier convergence is expected to be revenue neutral in preparation for moving to time of use rates in 2018.

Even with these increases, SMUD's rates continue to remain amongst the lowest in the state. In 2014, the average system rate was 27.7 percent below the nearest investor owned utility's (IOU's) average rate. As a result of the extensive analysis of new rate designs, SMUD was recognized as a statewide leader in rate design by the Governor's Office, the CPUC, the U.S. Department of Energy (DOE), IOUs, and the academic community.

SMUD's business strategy focuses on planning to service its customers in a forward looking manner, addressing current regulatory and legislative issues, and potential competitive forces. This includes ensuring financial stability by establishing rates that provide acceptable cash coverage of all fixed charges on a consolidated basis, taking into consideration the impact of capital expenditures and other factors on cash flow.

Financial & Operational Highlights

In 2014, the Board appointed a new General Manager (GM), Arlen Orchard, who is the Chief Executive Officer (CEO) of SMUD and responsible for SMUD's overall management and operation. The GM and CEO's executive vision is to increase emphasis on meeting increased customer expectations, data governance and management, and improved operational efficiencies. Significant accomplishments in 2014 include Fitch upgrading SMUD's credit rating from A+ to AA- and the renewal of several letters of credit resulting in reduced credit support costs, SMUD being recognized by its residential customers as the top California utility for the thirteenth consecutive year by J.D. Power and ranked first among midsize utilities in the West for business customer satisfaction, and FERC issuing a new license for SMUD's hydro facilities.

In July 2014, FERC issued a new fifty year license for the Upper American River Project (UARP), which includes authority to build the Iowa Hill pumped-storage project. The UARP consists of three relatively large storage reservoirs and eight powerhouses containing eleven turbines. The UARP is one of SMUD's lowest cost power sources. In addition to providing clean hydroelectric power and operational flexibility, it provides habitat for fish and wildlife and a variety of recreational opportunities, including camping, fishing, boating, hiking, horseback riding, mountain biking, and cross-country skiing. The combined capacity of the UARP is approximately 673 MW and represents about 15 percent of SMUD's average annual retail energy requirements. The Iowa Hill pumped-storage project is a proposed 3 unit, 400 MW variable speed powerhouse. The first phase of the geotechnical exploration plan and most of the required permitting was completed in 2014. SMUD's other power generation facilities include 3 MW of solar photovoltaic installations, 102 MW Solano Wind Project, five local gas-fired power plants with total capacity of approximately 1012 MW. In addition SMUD has several power purchase agreements to help meet its power requirements.

As part of the hydro relicensing process, SMUD entered into long-term contracts to provide certain services to four different government agencies – U.S. Department of Interior Bureau of Land Management, U.S. Department of Agriculture Forest Service, El Dorado County, and the California Department of Parks and Recreation. The aggregate present value of all contract payments of $56.1 million was recorded as a Noncurrent Liability at December 31, 2014.

The impact of the drought continued to plague California in 2014. SMUD experienced a third year of below average precipitation, which reduced its hydroelectric generation from the UARP by more than 50 percent. Reserve funds have been established to help absorb higher energy costs when hydroelectric production is down and to serve as a buffer against unexpected financial developments. In April 2014 and 2013, $24.3 million and $6.6 million, respectively, were transferred from the Hydro Rate Stabilization Fund (HRSF) to revenue as a result of the lower precipitation. The balance of the HRSF at December 31, 2014 and 2013 was $3.1 million and $27.4 million, respectively. SMUD's mitigation efforts have protected its rate payers from rate volatility due to higher operating costs; however, if the drought continues and reserves are not adequate to cover all costs, SMUD will apply a hydroelectric rate surcharge of up to 4 percent to customers' electric bills. SMUD also has a long-term agreement with the Western Area Power Administration (WAPA) to purchase power generated by the Central Valley Project, a series of federal hydroelectric facilities operated by the U.S. Bureau of Reclamation (USBR). SMUD uses the Rate Stabilization Fund (RSF) to offset any excess or deficits in WAPA energy deliveries. As a result of the drought, WAPA's deliveries fell short by about 27 percent and in December 2014, $11.8 million was transferred from the RSF due to the lower energy deliveries. In December 2013, $1.8 million was transferred to the RSF due to excess energy deliveries. At December 31, 2014 and 2013, the balance of the RSF was $42.3 million and $54.1 million, respectively.

In September 2014, the UARP facilities were threatened by the King Fire that burned approximately 98,000 acres of forested area in El Dorado County, including lower elevation areas of the UARP. Damage to the UARP was limited relative to the magnitude of the fire. Power generation was interrupted for one week while transmission lines were de-energized, causing SMUD to incur substitute power costs. SMUD incurred over $4.0 million of costs related to the fire and cleanup and is actively pursuing insurance claims, as well as federal and state disaster relief, if made available.

Decommissioning

During 2014, SMUD made significant progress toward completing the Decommissioning Plan for its Rancho Seco nuclear facility, which was shut down in 1989. The plan consists of two phases that allow SMUD to terminate its possession-only license. Phase I of the decommissioning was completed at the end of 2008. Phase II consists of a storage period for the Class B and Class C radioactive waste overseen by the existing facility staff, followed by shipment of the waste for disposal, and then complete termination of the possession-only license. SMUD also established and funded an external decommissioning trust fund as part of its assurance to the Nuclear Regulatory Commission (NRC) to pay for the cost of decommissioning. In September 2013, SMUD entered into a contract with the operator of a low-level radioactive waste facility located in Andrews, Texas. Shipment of the previously stored Class B and Class C radioactive waste was completed in November 2014. The disposal and shipment costs were funded from the decommissioning trust fund in an amount over $22.0 million. At December 31, 2014 and 2013, the balance of the decommissioning trust fund was $8.3 million and $31.1 million, respectively. The Accrued Decommissioning balance in the Consolidated Statements of Net Position includes $152.1 million and $169.1 million for costs related to Rancho Seco as of December 31, 2014 and 2013, respectively.

As part of the Decommissioning Plan, the nuclear fuel and Greater Than Class C (GTCC) radioactive waste is being stored in a dry storage facility constructed by SMUD and licensed separately by the NRC. The DOE, under the Nuclear Waste Policy Act of 1982, was responsible for permanent disposal of used nuclear fuel and GTCC radioactive waste and SMUD contracted with the DOE for removal and disposal of that waste. In 1998, SMUD filed suit against the DOE for breach-of-contract because the DOE never provided a permanent waste disposal site. In September 2014, SMUD received $53.1 million following the signing of a final judgment by the U.S. Court of Federal Claims for costs incurred from 1992 through 2003 as a result of the DOE's failure to provide a disposal site for spent fuel from the Rancho Seco nuclear power plant. This amount is included in Other Income-Net in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

Employee Relations and Benefits

Effective January 1, 2013, SMUD began operating under a new five year memorandum of understanding (MOU) with both of its collective bargaining units, the International Brotherhood of Electrical Workers Local Union 1245 and the Organization of SMUD Employees.

SMUD participates in the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. In July 2014, SMUD exercised the option to prepay an annual lump sum payment to PERS. Of the total $22.5 million contribution made, $11.2 million is included as a prepaid asset at December 31, 2014 and the $11.3 million was recorded as an expense in 2014.

SMUD provides postemployment healthcare benefits (OPEB) to all employees who retire from SMUD and their dependents in accordance with SMUD policy and MOUs. These benefits are funded through the PERS California Employer's Retiree Benefit Trust, an agent multiple-employer plan. SMUD opted to make an additional $40.0 million contribution to the trust in 2014. This contribution was in excess of the actuarial required contribution, increasing SMUD's funded level to 25.6 percent. The balance of the OPEB asset at December 31, 2014 and 2013 was $ 77.7 million and $36.7 million, respectively.

Developments in the Energy Market

New developments in the energy market at both the federal and state level kept SMUD on high alert as it continued to monitor and address the potential impacts on the organization. Legislation at the federal level include the Executive Order "Improving Critical Infrastructure Security" on cyber security, the Energy Policy Act of 1992 related to federal regulation of transmission access that includes FERC Order 1000, the North American Electric Reliability Corporation reliability standards, anti-market manipulation rules, and greenhouse gas emissions. Legislation at the state level include Assembly Bill 32 Global Warming Solutions Act of 2006 (AB 32) establishing the cap-and-trade program for carbon allowances, renewable portfolio standards, Senate Bill 1 (SB-1) solar program, SB-2 1X the California Renewable Energy Resources Act that codifies the Renewable Portfolio Standards target, the Delta Reform Act of 2009 that impacts hydro generation, and the California Independent System Operator's development of the energy imbalance market.

Significant Accounting Policies

In accordance with GASB Statement No. 62, "***Regulated Operations,***" the Board has taken regulatory actions for ratemaking that result in the deferral of expense and revenue recognition. These actions result in regulatory assets and liabilities. SMUD has regulatory assets that cover costs related to decommissioning, Transmission Agency of Northern California (TANC) operations, USBR, derivative financial instruments, SB-1 solar investments, and debt issuance costs. As of December 31, 2014 and 2013, total regulatory assets were $203.6 million and $192.2 million, respectively. SMUD also has regulatory credits that cover costs related to contributions in aid of construction, the RSF and HRSF, AB 32 carbon allowances, grant revenues, TANC, and precipitation hedges. As of December 31, 2014 and 2013, total regulatory credits were $368.9 million and $403.2 million, respectively.

FINANCIAL POSITION

CONDENSED CONSOLIDATED STATEMENTS OF NET POSITION

	December 31, 2014	2013	2012
	(millions of dollars)		
Assets			
Electric Utility Plant – net	$ 3,332	$ 3,323	$ 3,340
Restricted and Designated Assets	137	174	233
Current Assets	1,073	1,062	911
Noncurrent Assets	819	784	862
Total Assets	$ 5,361	$ 5,343	$ 5,346
Deferred Outflows of Resources	192	149	223
Total Assets and Deferred Outflows of Resources	$ 5,553	$ 5,492	$ 5,569
Liabilities			
Long-Term Debt - net	$ 2,882	$ 3,076	$ 3,092
Current Liabilities	661	589	643
Noncurrent Liabilities	355	289	342
Total Liabilities	$ 3,898	$ 3,954	$ 4,077
Deferred Inflows of Resources	646	691	715
Net Position:			
Net Investment in Capital Assets	485	345	412
Restricted	127	116	127
Unrestricted	397	386	238
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 5,553	$ 5,492	$ 5,569

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Electric Utility Plant – net

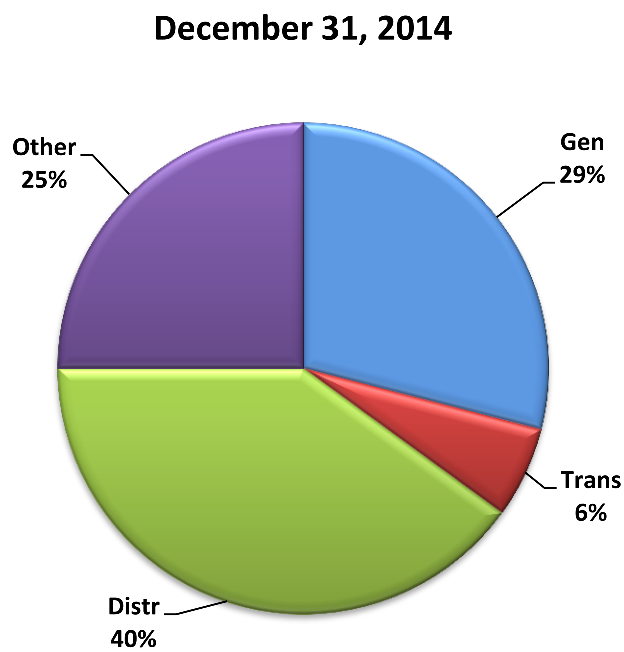
2014 compared to 2013

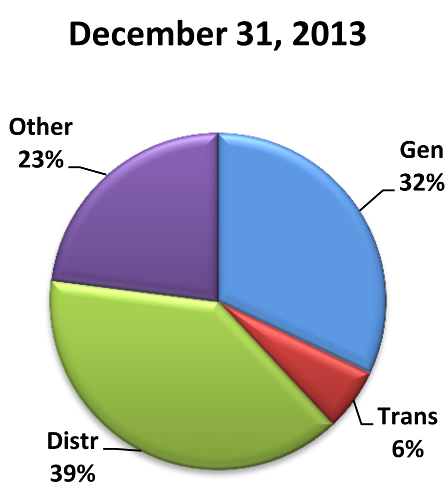
As of December 31, 2014 SMUD has invested approximately $3,332.0 million in electric utility plant assets and construction work in progress (CWIP) after accumulated depreciation. Net Electric Utility Plant makes up about 60 percent of SMUD's Total Assets and Deferred Outflow of Resources, which is about one percent less than 2013. In 2014, SMUD capitalized approximately $199.0 million of additions to electric utility plant in the Consolidated Statements of Net Position. The additions were primarily due to distribution line work, hardware and software upgrades, and purchase of land for additional wind capacity and replacement of bulk substations. These additions were offset by the retirement of the UARP recreational facilities and some photovoltaic assets.

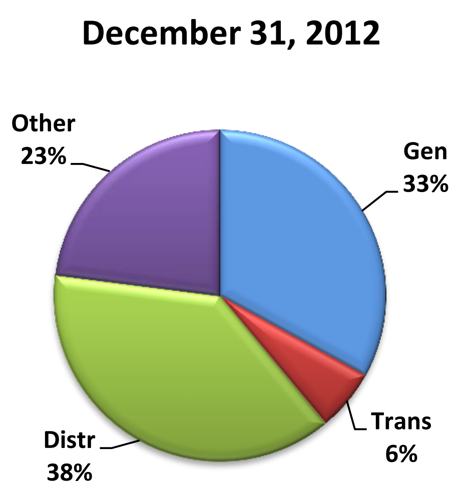
2013 compared to 2012

SMUD has invested approximately $3,323.0 million in electric utility plant assets and construction work in progress (CWIP) after accumulated depreciation at December 31, 2013. Electric Utility Plant – net makes up about 62 percent of SMUD's Total Assets, which is the same percentage as the previous year. In 2013, SMUD capitalized approximately $171.0 million of additions to electric utility plant in SMUD's Consolidated Statements of Net Position. The additions were primarily due to distribution line work, hardware and software upgrades, the East Campus Operations Center, and distribution and transmission substation upgrades and modifications.

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







Restricted and Designated Assets

2014 compared to 2013

SMUD's restricted and designated assets are comprised of debt service reserves, nuclear decommissioning trust funds, rate stabilization reserves, and other third party agreements or Board actions. These assets decreased by $37.4 million during 2014. The decrease was partially due to a transfer of $36.2 million from the RSF (including the HRSF) as a result of lower precipitation and lower energy deliveries from WAPA. In addition, there was a decrease of $22.9 million in the nuclear decommissioning fund mainly due to payments made for the shipment of the low level radioactive waste to a permanent waste disposal facility. These decreases were offset by $11.0 million increase in the component units' overhaul and maintenance reserve and $13.7 million in the current portion of these assets.

2013 compared to 2012

SMUD's restricted and designated assets decreased by $58.7 million during 2013. The decrease was due to $28.7 million related to the component units' overhaul and operating funds, $14.5 million in the nuclear decommissioning fund, $11.0 million in the revenue bond reserves due to the refunding of Series R03 and S03, and $4.8 million in the RSF (including the HRSF) as a result of lower precipitation and higher energy deliveries from Western. These decreases were offset by a $0.3 million increase in the escrow fund.

Current Assets

2014 compared to 2013

Current assets remained relatively flat in 2014 compared to 2013 with a one percent increase of $12.2 million. The unrestricted investments increased by $91.3 million along with a total increase of $8.9 million in the current portion of regulatory costs and prepaid gas, inventories, and credit support collateral deposits. These increases were offset by decreases of $59.0 million in unrestricted cash and cash equivalents, $13.7 million in restricted and designated cash and cash equivalents and investments, $12.7 million in net receivables, and $2.6 million in the current portion of investment and hedging derivative instruments, and prepayments.

2013 compared to 2012

Current assets increased by $141.1 million in 2013 primarily due to increases in the following: $249.5 million in unrestricted investments, $32.5 million in the current portion of restricted and designated cash and $10.6 million in the current portion of prepayments. This is partially offset by decreases in the following: $71.5 million in unrestricted cash and cash equivalents, $71.4 million in net receivables, $5.0 million in the current portion of regulatory costs, and $5.0 million in credit support collateral deposits.

Noncurrent Assets

2014 compared to 2013

Total noncurrent assets increased by $35.0 million mainly due to a $40.0 million additional contribution to the OPEB trust fund.

2013 compared to 2012

Total noncurrent assets decreased by $69.0 million mainly due to the following decreases: $30.2 million in regulatory costs for future recovery, $25.0 million in gas, power and other prepaid costs, $10.5 million in hedging derivative instruments, and $3.3 million in net energy efficiency loans.

Deferred Outflows of Resources

2014 compared to 2013

Total deferred outflows of resources increased $42.7 million due to a $49.7 million increase in the fair value of hedging derivative instruments, offset by $7.0 million amortization of bond losses.

2013 compared to 2012

Total deferred outflows of resources decreased $73.6 million due to $61.9 million in the fair value of hedging derivative instruments and $11.7 million in unamortized bond losses.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Long-term debt - net

2014 compared to 2013

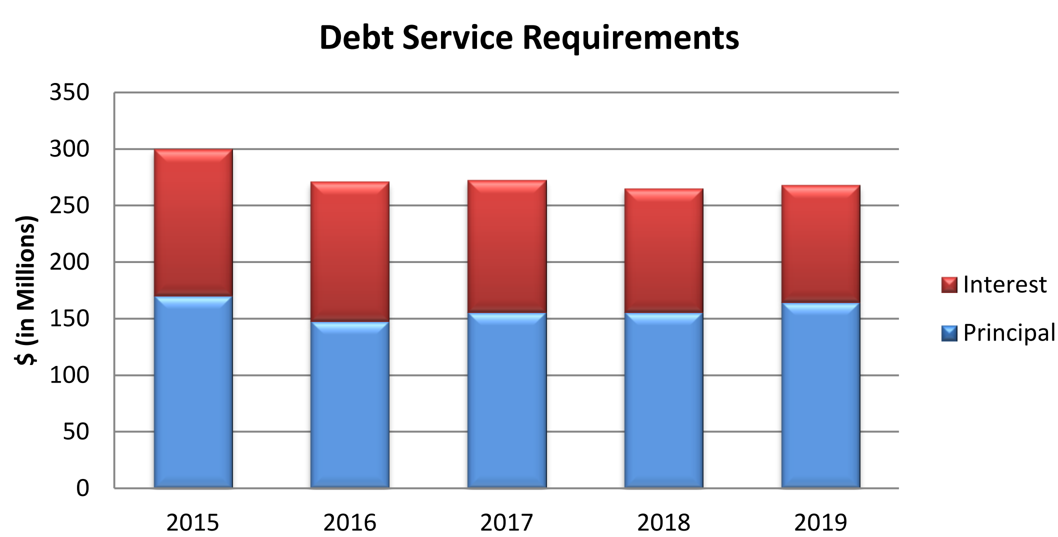
SMUD's long-term debt includes the component units' debt and consists of a variety of financial instruments, including interest rate swap agreements, subordinated electric revenue bonds and variable rate bonds. Proceeds from the bonds provide financing for various capital improvement projects, component unit capital projects, and the prepayment of a 20 year supply of natural gas.

In December 2014, SMUD redeemed $8.7 million of 2004 Series T Bonds. The redemption resulted in a current accounting gain of $23 thousand, which is included in Interest on Debt. Redeeming the bonds will reduce the aggregate future debt service payments by $11.0 million.

2013 compared to 2012

In May 2013, SMUD issued $118.6 million of 2013 Series B Electric Revenue Refunding Bonds. The proceeds from the issuance along with $6.7 million of available funds were used to refund $141.5 million of the outstanding 2003 Series R and 2004 Series T revenue bonds through a legal defeasance. In August 2013, SMUD issued $57.8 million of 2013 Series C Electric Revenue Refunding Bonds. The proceeds from the issuance along with $4.3 million of available funds were used to refund $65.9 million of the outstanding 2003 Series S bonds through a legal defeasance.

The following table shows SMUD's future debt service requirements through 2019 as of December 31, 2014:



As of December 31, 2014, SMUD's bonds had an underlying rating of "AA-" from Standard & Poor's, "AA-" from Fitch, and "A1" from Moody's. SMUD's bonds were upgraded by Fitch from A+ to AA- in December 2014. 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

2014 compared to 2013

Current liabilities increased by $72.0 million during 2014. Current portion of long-term debt increased $32.8 million mainly due to a $29.9 million early call of a component unit's bonds. In addition, there was a $38.7 million increase in investment and hedging derivative instruments.

2013 compared to 2012

Current liabilities decreased by $59.0 million during 2013. The decrease is primarily due to the following: investment and hedging derivative instruments maturing within one year of $77.5 million, $11.5 million in customer deposits and other, and $3.7 million in accounts payable. These decreases were partially offset by $ 18.4 million increase in long-term debt due within a year and $13.5 million in accrued decommission costs.

Noncurrent Liabilities

2014 compared to 2013

Noncurrent liabilities increased by $65.7 million during 2014. The increase was mainly due to a $56.1 million liability associated with the new hydro license and $18.4 million in investment and hedging derivative instruments.

2013 compared to 2012

Noncurrent liabilities decreased by $48.0 million during 2013. The decrease was due to $14.0 million in accrued decommissioning costs, $14.9 million in investment derivative instruments, $8.3 million due to affiliated entity, $6.2 million due to USBR, and $7.8 million in self- insurance. These decreases were offset by a $3.2 million increase in hedging derivative instruments.

Deferred Inflows of Resources

2014 compared to 2013

Total deferred inflows of resources decreased $45.2 million due to a transfer of $36.2 million from the RSF (including the HRSF) as a result of lower precipitation and lower energy deliveries from WAPA and the amortization of $10.0 million for the Solano Phase 3 wind facilities.

2013 compared to 2012

Total deferred inflows of resources decreased $24.0 million due to a decrease of $18.6 million in financing obligations and $9.0 million in accumulated increase in fair value of hedging derivatives. These decreases were offset by a $3.6 million increase in regulatory credits.

RESULTS OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	December 31,		
	2014	2013	2012
	(millions of dollars)		
Operating revenues	$ 1,529	$ 1,428	$ 1,382
Operating expenses	(1,323)	(1,255)	(1,153)
Operating income	206	173	229
Other revenues	79	22	57
Interest charges	(122)	(125)	(126)
Change in net position	163	70	160
Net position – beginning of year	847	777	617
Net position – end of year	$ 1,010	$ 847	$ 777

Operating Revenues

2014 compared to 2013

Operating revenues increased $100.9 million in 2014, of which $36.7 million includes the 2.5 percent rate increase that went into effect January 1, 2014. As of December 31, 2014, the number of customers had increased approximately one percent to 614,143 at a slightly higher average revenue per kilowatt hour as compared to the end of 2013.

SMUD transferred $24.3 million from the RSF in 2014 compared to a transfer of $1.8 million to the RSF in 2013. SMUD also transferred $11.9 million and $6.6 million from the HRSF in 2014 and 2013, respectively.

Wholesale revenues are comprised of both surplus gas and energy sales which are part of the operational strategy in managing fuel and energy costs. In 2014, surplus gas sales were higher than 2013 by $29.3 million due to higher gas prices and more gas sold. Energy sales were also higher in 2014 by $5.8 million as compared to 2013 due to higher prices offset by lower volume.

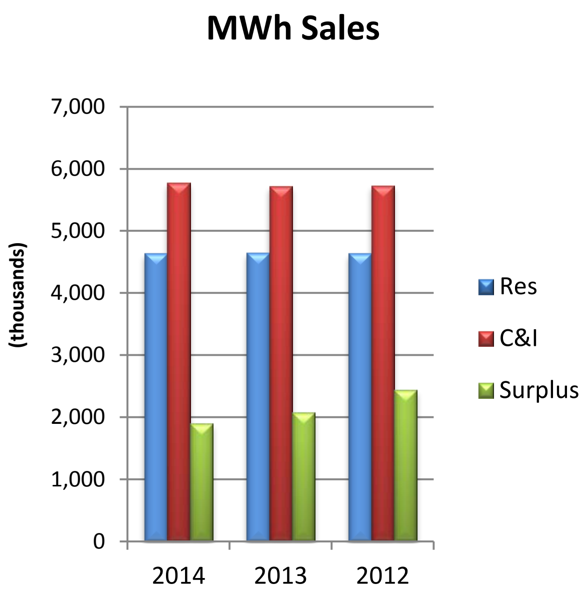
2013 compared to 2012

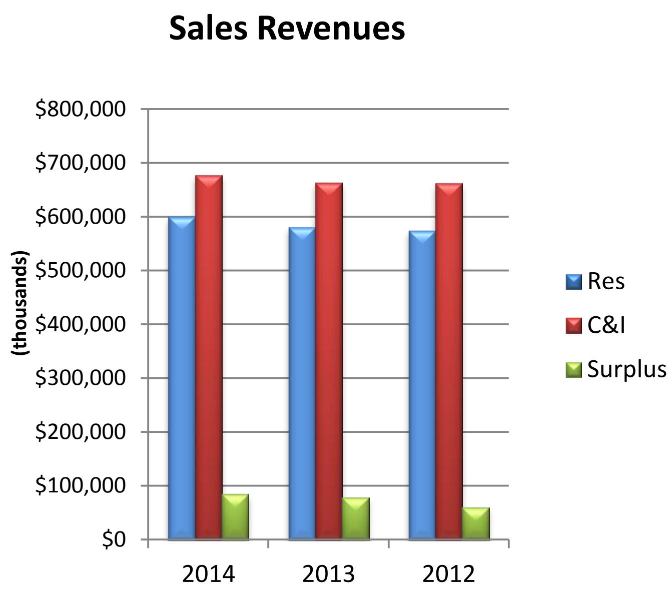
Operating revenues were $1,428.4 million in 2013, an increase of $46.1 million from 2012. Sales to retail customers were $1,252.4 million in 2013, an increase of $6.9 million, which was about 1 percent higher than 2012. The number of customers increased from 604,053 in 2012 to 610,185 at the end of 2013, at an average revenue per kilowatt hour that remained flat.

SMUD transferred $1.8 million to the RSF in 2013 as compared to a $0.6 million transfer to the fund in 2012. SMUD also transferred $6.6 million from the HRSF during 2013 as compared to a $6.4 million transfer from the fund in 2012. Additionally, SMUD spent more than it collected in SB-1 revenues and has recorded a regulatory asset of $7.7 million.

Wholesale revenues are composed of both surplus gas and energy sales. In 2013, surplus gas sales were $52.8 million as compared to $48.7 million in 2012. Surplus gas sales were 8 percent higher and the average sales price was higher than the previous year. Surplus energy sales in 2013 were $18.3 million higher than in 2012 as a result of higher prices offset by lower volumes.

The following charts show the megawatt hour (MWh) sales, and sales revenue for the past three years by surplus energy sales (Surplus), commercial and industrial (C&I) and residential (Res) customers.





Operating Expenses
2014 compared to 2013
Operating expenses increased $68.3 million compared to 2013 mainly due to the impact of the drought on hydro generation. The reduction in hydro generation contributed significantly to the $42.5 million increase in purchased power expense, which is about 16 percent higher than in 2013. Production costs, which include depletion, were higher by $14.3 million. Net fuel costs for generation is included in production costs and was $37.0 million lower than 2013 mainly due to a 14 percent reduction in the average net fuel price.

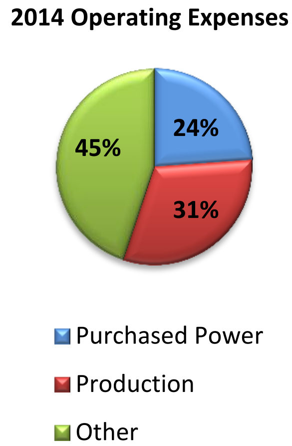
2013 compared to 2012
Operating expenses were $1,255.2 million in 2013, an increase of $102.1 million from 2012. Purchased power expense was $31.7 million higher in 2013, mainly due to higher average prices offset by lower volume as compared to 2012. Approximately 9 percent less energy was purchased in 2013 at prices that averaged 24 percent higher than in 2012.

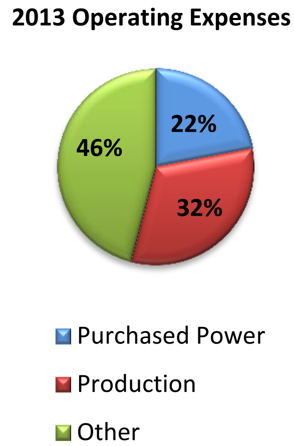
In 2013, net fuel costs for generation, a component of production costs, were approximately $257.2 million (inclusive of ineffective hedges reported as investment expense), or $12.6 million lower than 2012. Fuel usage increased 10 percent primarily due to higher production at the component unit generation plants. Average net fuel prices were lower by 14 percent in 2013 as compared to 2012.

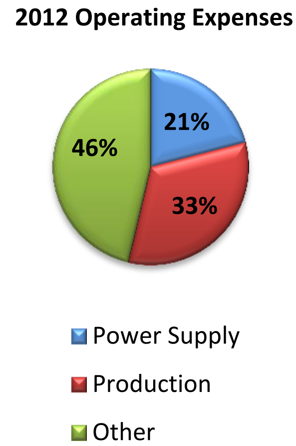
Depreciation expense increased by $15.3 million due to higher depreciation related to software and hardware, general structures and improvements, Solano Wind plant, and distribution assets. The $4.4 million decrease in regulatory amounts collected in rates is due to the final year of amortization of North City Substation remediation obligations offset by higher decommissioning costs.

Administrative, general, and customer expenses were $14.6 million higher in 2013 than in 2012, mainly due to higher expense in various customer programs.

The following charts show the breakdown of operating expenses:







Other Revenues and (Expenses)
2014 compared to 2013
Other revenues were $56.7 million higher in 2014 most of which was attributable to the $53.1 million settlement related to the Rancho Seco nuclear waste disposal litigation. Other changes include lower investment expense of $13.2 million due to ineffective hedges, offset by $5.0 million lower revenues associated with grants.

2013 compared to 2012
Other revenues were $38.9 million lower in 2013 as compared to 2012. Interest income is lower by $29.7 million mainly due to the Fru-Con settlement related to the Cosumnes Power Plant litigation. Grant revenue net of pass through expenditures is lower by $13.0 million due to lower costs from grant programs, and other income – net was lower by $4.8 million. In addition, there was a $12.6 million decrease in investment expense related to ineffective hedges.

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SACRAMENTO MUNICIPAL UTILITY DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION

	DECEMBER 31, 2014	DECEMBER 31, 2013
	(thousands of dollars)	
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 5,575,013	$ 5,353,712
Less accumulated depreciation and depletion	(2,354,642)	(2,166,120)
Plant in service - net	3,220,371	3,187,592
Construction work in progress	111,594	135,385
Total electric utility plant - net	3,331,965	3,322,977
RESTRICTED AND DESIGNATED ASSETS		
Revenue bond and debt service reserves	130,430	133,472
Nuclear decommissioning trust fund	8,250	31,137
Rate stabilization fund	45,306	81,474
Other funds	66,752	55,773
Less current portion	(113,805)	(127,524)
Total restricted and designated assets	136,933	174,332
CURRENT ASSETS		
Unrestricted cash and cash equivalents	237,709	296,679
Unrestricted investments	396,575	305,296
Restricted and designated cash and cash equivalents	37,765	42,425
Restricted and designated investments	76,040	85,099
Receivables - net:		
Retail customers	153,658	152,821
Wholesale	7,837	8,390
Other	26,479	39,464
Regulatory costs to be recovered within one year	20,838	17,668
Investment derivative instruments maturing within one year	39	279
Hedging derivative instruments maturing within one year	9,025	9,879
Inventories	52,626	49,866
Prepaid gas to be delivered within one year	24,893	22,720
Credit support collateral deposits	829	-0-
Prepayments	28,952	30,475
Total current assets	1,073,265	1,061,061
NONCURRENT ASSETS		
Regulatory costs for future recovery	182,793	174,570
Prepaid gas	315,612	340,504
Prepaid power and capacity	140,507	145,362
Investment derivative instruments	-0-	147
Hedging derivative instruments	25,703	25,704
Energy efficiency loans - net	33,173	36,378
Credit support collateral deposits	3,171	-0-
Due from affiliated entity	7,687	-0-
Prepayments and other	110,575	61,568
Total noncurrent assets	819,221	784,233
TOTAL ASSETS	5,361,384	5,342,603
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	152,033	102,356
Unamortized bond losses	39,830	46,790
Total deferred outflows of resources	191,863	149,146
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,553,247	$ 5,491,749

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION

	DECEMBER 31, 2014	DECEMBER 31, 2013
	(thousands of dollars)	
LIABILITIES		
LONG-TERM DEBT - net	$ 2,881,701	$ 3,075,802
CURRENT LIABILITIES		
Commercial paper notes	200,000	200,000
Accounts payable	75,147	72,012
Purchased power payable	21,423	19,448
Credit support collateral obligation	160	160
Long-term debt due within one year	170,430	137,600
Accrued decommissioning	7,879	19,759
Interest payable	42,219	44,345
Accrued salaries and compensated absences	37,715	36,089
Investment derivative instruments maturing within one year	12,295	9,063
Hedging derivative instruments maturing within one year	51,727	16,212
Customer deposits and other	42,238	34,512
Total current liabilities	661,233	589,200
NONCURRENT LIABILITIES		
Accrued decommissioning	154,280	158,807
Investment derivative instruments	19,888	15,689
Hedging derivative instruments	100,306	86,144
Due to affiliated entity	-0-	841
Due to U.S. Bureau of Reclamation	-0-	391
Self insurance, unearned revenue and other	80,340	27,213
Total noncurrent liabilities	354,814	289,085
TOTAL LIABILITIES	3,897,748	3,954,087
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	34,728	35,583
Regulatory credits	368,931	403,197
Financing obligation and other	242,069	252,177
Total deferred inflows of resources	645,728	690,957
NET POSITION		
Net investment in capital assets	485,358	345,493
Restricted	127,044	115,632
Unrestricted	397,369	385,580
TOTAL NET POSITION	1,009,771	846,705
COMMITMENTS AND CONTINGENCIES (Notes 16 and 17)		
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 5,553,247	$ 5,491,749

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

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

	Year Ended December 31, 2014	2013
	(thousands of dollars)	
OPERATING REVENUES		
Residential	$ 594,644	$ 572,701
Commercial and industrial	676,972	663,356
Street lighting and other	34,236	33,083
Wholesale	166,262	131,130
Senate Bill - 1 revenue	(331)	10,711
AB-32 revenue	21,393	12,656
Rate stabilization fund transfers	36,168	4,758
Total operating revenues	1,529,344	1,428,395
OPERATING EXPENSES		
Operations:		
Purchased power	316,082	273,596
Production	402,310	388,139
Transmission and distribution	63,475	57,312
Administrative, general and customer	168,353	168,522
Public good	73,315	77,098
Maintenance	98,496	92,573
Depreciation	184,810	180,718
Depletion	11,230	11,084
Regulatory amounts collected in rates	5,401	6,140
Total operating expenses	1,323,472	1,255,182
OPERATING INCOME	205,872	173,213
NON-OPERATING REVENUES AND EXPENSES		
Other revenues and (expenses)		
Interest income	7,759	7,457
Investment expense	(8,515)	(21,678)
Revenue - Grants	4,830	16,323
Pass through expenditures - Grants	(1,827)	(8,308)
Other income - net	76,878	28,647
Total other revenues and (expenses)	79,125	22,441
Interest charges		
Interest on debt	123,253	128,959
Allowance for funds used during construction	(1,322)	(3,003)
Total interest charges	121,931	125,956
CHANGE IN NET POSITION	163,066	69,698
NET POSITION - BEGINNING OF YEAR	846,705	777,007
NET POSITION - END OF YEAR	$ 1,009,771	$ 846,705

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014	2013
	(thousands of dollars)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from retail customers	$ 1,302,475	$ 1,264,147
Receipts from surplus power sales	83,758	80,569
Receipts from surplus gas sales	83,203	52,432
Receipts from steam sales	5,474	5,411
Settlement proceeds	53,140	-0-
Other receipts	31,804	19,282
Payments/receipts for credit support collateral	(4,000)	4,900
Issuance/repayment of energy efficiency loans, net	3,611	3,413
Payments to employees - payroll and other	(240,038)	(229,287)
Payments for wholesale power	(314,052)	(274,952)
Payments for gas purchases	(274,791)	(273,386)
Payments to vendors/others	(328,787)	(258,482)
Payments for decommissioning	(18,846)	(15,036)
Net cash provided by operating activities	382,951	379,011
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of debt	(22,380)	(21,795)
Receipts from federal and state grants	13,103	23,011
Pass through payments for federal and state grants	(2,188)	(9,424)
Interest on debt	(15,128)	(15,977)
Net cash provided used in noncapital financing activities	(26,593)	(24,185)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Solano Wind Phase 3 financing obligation	-0-	63,147
Construction expenditures	(142,416)	(184,046)
Contributions in aid of construction	11,285	8,523
Net proceeds from bond issues	-0-	353,521
Repayments and refundings of debt	(123,910)	(309,763)
Interest on debt	(118,645)	(118,425)
Net cash used in capital financing activities	(373,686)	(187,043)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and maturities of securities	449,698	199,382
Purchases of securities	(483,049)	(431,509)
Interest and dividends received	7,772	6,313
Investment revenue/expenses, net	(8,572)	(21,677)
Net cash used in investing activities	(34,151)	(247,491)
Net decrease in cash and cash equivalents	(51,479)	(79,708)
Cash and cash equivalents at the beginning of the year	388,540	468,248
Cash and cash equivalents at the end of the year	$ 337,061	$ 388,540
Cash and cash equivalents included in:		
Unrestricted cash and cash equivalents	$ 237,709	$ 296,679
Restricted and designated cash and cash equivalents	37,765	42,425
Revenue bond and debt service reserves (a component of the total of $130,430 and $133,742 at December 31, 2014 and 2013, respectively)	61,587	49,436
Cash and cash equivalents at the end of the year	$ 337,061	$ 388,540

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, 2014	2013
	(thousands of dollars)	
Operating income	$ 205,872	$ 173,213
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	184,810	180,718
Depletion	11,230	11,084
Regulatory amortization	5,401	6,140
Amortization of advance capacity & other	929	1,972
Amortization of prepaid gas supply	22,720	21,627
Revenue (recognized from) deferred to regulatory credits, net	(33,939)	(16,579)
Settlement proceeds	53,140	-0-
Payments/receipts for credit support collateral, net	(4,000)	4,900
Other receipts/payments	2,756	5,976
Changes in operating assets and liabilities:		
Customer and wholesale receivables	558	1,500
Energy efficiency loans	3,611	3,413
Other assets	(69,997)	(8,417)
Payables and accruals	18,706	8,500
Decommissioning	(18,846)	(15,036)
Net cash provided by operating activities	$ 382,951	$ 379,011

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

	Year Ended December 31, 2014	2013
	(thousands of dollars)	
Amortization of debt related costs	8,148	6,787
Unrealized holding gain or (loss)	(681)	(389)
Change in valuation of derivative financial instruments	(58,350)	80,593
Amortization of revenue for assets contributed in aid of construction	17,970	16,156
Allowance for funds used during construction	1,322	3,003
Construction costs included in accounts payable	16,588	20,216

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

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 for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). 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. Capital assets are generally defined by SMUD as tangible assets with an initial, individual cost of more than three thousand dollars and an estimated useful life in excess of two years. 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 2014 and 2013 were 3.5 and 3.6 percent, respectively. Depreciation is calculated using the following estimated lives:

Generation	7 to 80 years
Transmission and Distribution	15 to 50 years
Gas Pipeline	5 to 90 years
General	5 to 60 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.

SMUD's investment in Balancing Authority of Northern California (BANC) is accounted for under the equity method of accounting. SMUD's share of the BANC operations and maintenance expense 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) requires the maintenance of minimum levels of reserves for debt service on the 1997 Series K Bonds and the 2003 Series R Bonds.

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 12). Interest earnings on the Trust Fund assets are recorded as Interest Income and are accumulated in 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 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, 2014 and 2013, SMUD's Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to Rancho Seco was $152.1 million and $169.1 million, respectively (see Note 12). The Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to other electricity generation and gas production facilities totaled $10.1 million and $9.4 million as of December 31, 2014 and 2013, 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 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 held for more than one year 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, 2014 and 2013, unbilled revenues were $69.1 million and $73.6 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 and other credit services, 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 power purchase agreements. SMUD uses a combination of cash, securities and a letter of credit facility to satisfy its collateral requirements to counterparties. SMUD had 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 $50 million available at December 31, 2013. The letter of credit facility expired on January 17, 2014, and was not renewed. At December 31, 2014 and 2013, SMUD held $0.2 million on deposit by counterparties. The amount is recorded as unrestricted cash with an associated current liability. At December 31, 2014 and 2013, SMUD posted cash collateral of $4.0 million and $0.0 million, respectively, with counterparties.

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 2014 and 2013 is presented below:

	Balance at beginning of Year	Additions	Write-offs and (Recoveries)	Balance at end of Year
		(thousands of dollars)		
Other Non-Electric:				
December 31, 2014	$ 2,346	$ 623	$ 976	$ 1,993
December 31, 2013	$ 1,239	$ 1,374	$ 267	$ 2,346
Retail Customers:				
December 31, 2014	$ 4,194	$ 4,887	$ 6,064	$ 3,017
December 31, 2013	$ 3,310	$ 7,530	$ 6,646	$ 4,194
Energy Efficiency Loans:				
December 31, 2014	$ 2,104	$ (982)	$ (205)	$ 1,327
December 31, 2013	$ 2,362	$ (358)	$ (100)	$ 2,104

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.

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, 2014 and 2013, the total estimated liability for vacation and other compensated absences was $23.0 million and $21.9 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 Deferred Inflows of Resources or Deferred Outflows of Resources 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 2014 and 2013 was 3.3 percent and 3.5 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 power purchase agreements and option agreements) at fair value on its Consolidated Statements of Net Position. SMUD does not enter into agreements for speculative 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. 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 have been recorded as Deferred Inflows of Resources 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. Sale proceeds in the amount of $63.1 million were received in 2013. 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 16 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 15).

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. SMUD recorded a pollution remediation liability of $12.0 million.

Hydro License. SMUD owns and operates the Upper American River Hydroelectric Project (UARP). The original license to construct and operate the UARP was issued in 1957 by FERC and expired in 2007. Since then, SMUD had been operating under an extension of the original license. In 2014, SMUD received the new hydro license for a term of 50 years, effective July 1, 2014. As part of the hydro licensing process, SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. SMUD recorded a liability for the present value of the sum of the annual payments in the amount of $56.1 million at December 31, 2014 (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 program auctions in 2013 and 2014. SMUD expects its free allocation of allowances from the Air Resources Board will cover its compliance costs associated with electricity delivered to its retail customers. SMUD expects to recover compliance costs associated with wholesale power sales costs through its wholesale 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 2014, SMUD recorded $3.2 million of grant proceeds and recognized $4.8 million as a component of Revenue - Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, $1.6 million as a Regulatory Credit (see Note 8), and a $3.2 million decrease in unearned revenue as a component of Customer Deposits and Other on the Consolidated Statements of Net Position. During 2013, SMUD recorded $5.0 million of grant proceeds and recognized $16.3 million as Revenue - Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, $6.4 million as a Regulatory Credit (see Note 8), and a $17.7 million decrease in unearned revenue as a component of Customer Deposits and Other on the Consolidated Statements of Net Position.

In 2010, SMUD issued taxable Build America Bonds. SMUD receives an interest subsidy from the federal government equal to 35 percent of the interest paid (see Note 10). SMUD received a reduced subsidy payment in November 2014 and 2013 due to budget sequestration by the federal government. In 2014 and 2013, SMUD recognized $9.1 million and $9.5 million, respectively, 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.

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.

Rancho Seco Settlement. In June 1983, SMUD and the U.S. Department of Energy (DOE) entered into a contract whereby the DOE would build a repository for the acceptance and disposal of SMUD's spent nuclear fuel (SNF) and/or high-level radioactive waste (HLW). SMUD paid the DOE a total of approximately $40.0 million in fees under the contract, thus satisfying its obligation of performance under the contract. DOE did not build a repository and therefore breached its obligation under the contract to commence acceptance of SNF and HLW by January 31, 1998. As a result, SMUD incurred costs to design, license, and fabricate its own on-site storage facility for the long term dry storage of its spent fuel at Rancho Seco. SMUD filed a suit against the DOE in 1998 which covered costs incurred from 1992 to 2003. In September 2014, SMUD received a $53.1 million settlement which was recorded as Other Income – Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Subsequent events. Subsequent events for SMUD have been evaluated through February 20, 2015, which is the date that the financial statements were available to be issued.

Reclassifications. Certain amounts in the 2013 Consolidated Financial Statements have been reclassified in order to conform to the 2014 presentation.

Recent Accounting Pronouncements. In June 2012, GASB issued Statement of Governmental Accounting Standards (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.

In January 2013, GASB issued SGAS No. 69, ***"Government Combinations and Disposals of Government Operations"*** (GASB No. 69). GASB No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement is effective for SMUD in 2014. SMUD has assessed the financial statement impact of adopting this statement, and since SMUD is not involved in any government combinations or disposals of operations this statement currently has no impact on SMUD.

In November 2013, GASB issued SGAS No. 71, ***"Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68"*** (GASB No. 71). GASB No. 71 addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB No. 71 amends paragraph 137 of GASB No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement is effective for SMUD in 2015, to be applied simultaneously with the provisions of GASB No. 68. SMUD is currently assessing the financial statement impact of adopting this statement.

NOTE 3. ACCOUNTING CHANGE

In April 2013, GASB issued SGAS No. 70, ***"Accounting and Financial Reporting for Nonexchange Financial Guarantees"*** (GASB No. 70). The objective of GASB No. 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, GASB No. 70 requires new information to be disclosed by governments that receive nonexchange financial guarantees. This statement is effective for SMUD in 2014. SMUD extends financial guarantees to two component units, CVFA and SCA, and has included the required note disclosures to the Component Unit Bonds disclosure in Note 10.

NOTE 4. UTILITY PLANT

The summarized activity of SMUD's utility plant during 2014 is presented below:

	Balance December 31, 2013	Additions	Transfers and Disposals	Reclassifications	Balance December 31, 2014
			(thousands of dollars)		
Nondepreciable Utility Plant:					
Land	$ 118,532	$ 9,382	$ -0-	$ -0-	$ 127,914
CWIP	135,385	197,090	(220,881)	-0-	111,594
Total nondepreciable utility plant	253,917	206,472	(220,881)	-0-	239,508
Depreciable Utility Plant:					
Generation	1,654,315	5,079	(26,414)	-0-	1,632,980
Transmission	290,431	2,907	(418)	-0-	292,920
Distribution	1,943,217	71,192	(6,490)	44,335	2,052,254
Investment in gas properties	206,158	40	-0-	-0-	206,198
Investment in JPAs	14,841	-0-	(676)	-0-	14,165
Intangibles	237,314	109,101	(147)	-0-	346,268
General	888,904	24,960	(11,550)	-0-	902,314
	5,235,180	213,279	(45,695)	44,335	5,447,099
Less: accumulated depreciation and depletion	(2,161,032)	(195,939)	52,065	(44,335)	(2,349,241)
Less: accumulated amortization on JPAs	(5,088)	(313)	-0-	-0-	(5,401)
	(2,166,120)	(196,252)	52,065	(44,335)	(2,354,642)
Total depreciable plant	3,069,060	17,027	6,370	-0-	3,092,457
Total Utility Plant – net	$ 3,322,977	$ 223,499	$ (214,511)	$ -0-	$ 3,331,965

The summarized activity of SMUD's utility plant during 2013 is presented below:

	Balance December 31, 2012	Additions	Transfers and Disposals	Balance December 31, 2013
		(thousands of dollars)		
Nondepreciable Utility Plant:				
Land	$ 117,051	$ 1,549	$ (68)	$ 118,532
CWIP	334,488	168,869	(367,972)	135,385
Total nondepreciable utility plant	451,539	170,418	(368,040)	253,917
Depreciable Utility Plant:				
Generation	1,629,761	28,390	(3,836)	1,654,315
Transmission	287,990	2,023	418	290,431
Distribution	1,839,348	104,619	(750)	1,943,217
Investment in gas properties	204,951	1,207	-0-	206,158
Investment in JPAs	13,100	1,741	-0-	14,841
Intangibles	210,519	26,795	-0-	237,314
General	703,488	203,995	(18,579)	888,904
	4,889,157	368,770	(22,747)	5,235,180
Less: accumulated depreciation and depletion	(1,996,213)	(194,184)	29,365	(2,161,032)
Less: accumulated amortization on JPAs	(4,774)	(314)	-0-	(5,088)
	(2,000,987)	(194,498)	29,365	(2,166,120)
Total depreciable plant	2,888,170	174,272	6,618	3,069,060
Total Utility Plant - net	$ 3,339,709	$ 344,690	$ (361,422)	$ 3,322,977

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 39.0 percent of TANC's COTP debt service and operations costs in exchange for entitlement to approximately 536 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). The total entitlement shares for the COTP and SOT described above include the long-term agreements listed below.

In December 2009, SMUD entered into a long-term reallocation agreement with TANC and the City of Santa Clara. Effective January 2010 through July 1, 2013, SMUD had an additional 30 MW entitlement share of the SOT. This agreement expired July 1, 2013.

In 2009, SMUD entered into a 15-year long-term layoff agreement with TANC and certain members, expiring January 31, 2024. This agreement provides for the assignment of all rights and obligations of City of Palo Alto and City of Roseville related to their COTP and SOT entitlements. This agreement increased SMUD's COTP entitlement by 36 MW and SOT entitlement by 2MW. Effective July 1, 2014, an amendment provides for the return to City of Roseville of all rights and obligations related to the COTP entitlements, which decreased SMUD's COTP entitlement by 13 MW.

In 2014, SMUD entered into a 25-year long-term layoff agreement with TANC and certain members effective July 1, 2014. This agreement provides for the assignment of all rights and obligations of Northern California Power Agency and partial rights and obligations of the City of Santa Clara related to their COTP entitlements. This agreement increased SMUD's COTP entitlements by 130 MW.

The long-term debt of TANC, which totals $314.2 million (unaudited) at December 31, 2014, 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 $20.6 million and $18.9 million in 2014 and 2013, respectively.

Summary financial information for TANC is presented below:

	December 31, 2014 (Unaudited)	December 31, 2013 (Unaudited)
	(thousands of dollars)	
Total Assets	$ 399,873	$ 415,468
Total Deferred Outflows of Resources	3,987	4,769
Total Assets and Deferred Outflows of Resources	$ 403,860	$ 420,237
Total Liabilities	$ 390,574	$ 403,513
Total Deferred Inflows of Resources	226	609
Total Net Position	13,060	16,115
Total Liabilities, Inflows of Resources and Net Position	$ 403,860	$ 420,237
Changes in Net Position for the Six Months Ended December 31	$ 2	$ 2

BANC. SMUD, City of Redding, City of Roseville, Modesto Irrigation District and Trinity Public Utilities District are members of BANC, a JPA formed in 2009. In 2011, operational control of Balancing Authority (BA) operations was transferred from SMUD to BANC. 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 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 $0.8 million in 2014 and $0.7 million in 2013.

Summary financial information for BANC is presented below:

	December 31,	
	2014 (Unaudited)	2013 (Audited)
	(thousands of dollars)	
Total Assets	$ 543	$ 392
Total Liabilities	$ 543	$ 392
Total Net Position	-0-	-0-
Total Liabilities and Net Position	$ 543	$ 392
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, 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 or online at SMUD.org.

The summarized activity of SMUD's component units for 2014 is presented below:

CONDENSED STATEMENTS OF NET POSITION
December 31, 2014
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Assets					
Electric Utility Plant - Net	$ 57,861	$ 84,537	$ 253,204	$ 77,544	$ -0-
Restricted and Designated Assets	-0-	-0-	69,887	11,810	-0-
Current Assets	14,660	23,422	49,463	54,081	43,479
Noncurrent Assets	158	218	3,468	797	316,997
Total Assets	72,679	108,177	376,022	144,232	360,476
Deferred Outflows of Resources	1,095	1,430	-0-	1,597	-0-
Total Assets and Deferred Outflows of Resources	$ 73,774	$ 109,607	$ 376,022	$ 145,829	$ 360,476
Liabilities					
Long-term Debt - Net	$ 25,563	$ 36,885	$ 228,928	$ 35,151	$ 318,795
Current Liabilities	10,167	14,663	42,791	48,987	27,297
Noncurrent Liabilities	8,460	-0-	-0-	-0-	-0-
Total Liabilities	44,190	51,548	271,719	84,138	346,092
Net Position	29,584	58,059	104,303	61,691	14,384
Total Liabilities and Net Position	$ 73,774	$ 109,607	$ 376,022	$ 145,829	$ 360,476

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
December 31, 2014
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Operating Revenues	$ 32,983	$ 59,378	$ 231,388	$ 54,645	$ 37,912
Operating Expenses	32,035	53,837	206,429	52,649	22,927
Operating Income	948	5,541	24,959	1,996	14,985
Non-Operating Revenues and Expenses					
Other Revenues	1	1	151	45	621
Interest Charges and Other	(1,593)	(2,082)	(10,895)	(3,744)	(14,901)
Change in Net Position Before Distributions and Contributions	(644)	3,460	14,215	(1,703)	705
Distribution to Member	-0-	(2,000)	(4,500)	-0-	(671)
Member Contributions and Adjustments	-0-	-0-	-0-	29,905	82
Change in Net Position	(644)	1,460	9,715	28,202	116
Net Position – Beginning of Year	30,228	56,599	94,588	33,489	14,268
Net Position – End of Year	$ 29,584	$ 58,059	$ 104,303	$ 61,691	$ 14,384

CONDENSED STATEMENTS OF CASH FLOWS
December 31, 2014
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Net Cash Provided by Operating Activities	$ 6,510	$ 11,557	$ 44,003	$ 8,581	$ 37,891
Net Cash Used by Noncapital Financing Activities	-0-	(2,000)	(4,500)	-0-	(38,180)
Net Cash Used by Capital Financing Activities	(5,894)	(7,676)	(23,206)	(11,469)	-0-
Net Cash Provided by Investing Activities	1	2	282	1,098	621
Net Increase (Decrease) in Cash and Cash Equivalents	617	1,883	16,579	(1,790)	332
Cash and Cash Equivalents at the Beginning of the Year	4,755	6,738	53,301	13,806	14,710
Cash and Cash Equivalents at the End of the Year	$ 5,372	$ 8,621	$ 69,880	$ 12,016	$ 15,042

The summarized activity of SMUD's component units for 2013 is presented below:

CONDENSED STATEMENTS OF NET POSITION
December 31, 2013
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Assets					
Electric Utility Plant - Net	$ 63,014	$ 90,446	$ 269,117	$ 83,832	$ -0-
Restricted and Designated Assets	-0-	-0-	56,383	14,652	-0-
Current Assets	14,788	22,058	52,755	25,371	40,958
Noncurrent Assets	193	258	3,708	920	342,009
Total Assets	77,995	112,762	381,963	124,775	382,967
Deferred Outflows of Resources	1,463	1,832	-0-	1,988	-0-
Total Assets and Deferred Outflows of Resources	$ 79,458	$ 114,594	$ 381,963	$ 126,763	$ 382,967
Liabilities					
Long-term Debt - Net	$ 30,156	$ 42,229	$ 239,652	$ 72,956	$ 342,480
Current Liabilities	11,184	15,766	47,723	20,318	26,219
Noncurrent Liabilities	7,890	-0-	-0-	-0-	-0-
Total Liabilities	49,230	57,995	287,375	93,274	368,699
Net Position	30,228	56,599	94,588	33,489	14,268
Total Liabilities and Net Position	$ 79,458	$ 114,594	$ 381,963	$ 126,763	$ 382,967

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
December 31, 2013
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Operating Revenues	$ 40,269	$ 66,725	$ 242,511	$ 65,310	$ 37,912
Operating Expenses	39,566	62,308	220,460	58,168	21,826
Operating Income	703	4,417	22,051	7,142	16,086
Non-Operating Revenues and Expenses					
Other Revenues	53	5	143	26	611
Interest Charges and Other	(1,725)	(2,296)	(11,295)	(4,024)	(15,767)
Change in Net Position Before Distributions and Contributions	(969)	2,126	10,899	3,144	930
Distribution to Member	(3,000)	(7,500)	(37,000)	(2,000)	(672)
Member Contributions and Adjustments	-0-	-0-	-0-	-0-	75
Change in Net Position	(3,969)	(5,374)	(26,101)	1,144	333
Net Position – Beginning of Year	34,197	61,973	120,689	32,345	13,935
Net Position – End of Year	$ 30,228	$ 56,599	$ 94,588	$ 33,489	$ 14,268

CONDENSED STATEMENTS OF CASH FLOWS
December 31, 2013
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Net Cash Provided by Operating Activities	$ 6,588	$ 10,819	$ 38,273	$ 12,930	$ 37,950
Net Cash Used by Noncapital Financing Activities	(1,825)	(7,500)	(37,000)	(2,000)	(38,444)
Net Cash Used by Capital Financing Activities	(5,710)	(7,033)	(34,023)	(11,308)	-0-
Net Cash Provided (Used) by Investing Activities	2	6	20,258	(72)	610
Net Increase (Decrease) in Cash and Cash Equivalents	(945)	(3,708)	(12,492)	(450)	116
Cash and Cash Equivalents at the Beginning of the Year	5,700	10,446	65,793	14,256	14,594
Cash and Cash Equivalents at the End of the Year	$ 4,755	$ 6,738	$ 53,301	$ 13,806	$ 14,710

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.

As of December 31, 2014 and 2013, $9.7 million and $7.3 million in deposits were uninsured, respectively. The bank balance is also, per a depository pledge agreement between SMUD and SMUD's bank, collateralized at 132 percent and 124 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, 2014 and 2013, respectively. At December 31, 2014 and 2013, SMUD had money market deposit accounts and mutual funds of $161.4 million and $101.3 million which were uninsured, respectively. 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:	2014	2013
Federal National Mortgage Association (Fannie Mae)	6%	13%
Federal Home Loan Banks	18%	12%
Freddie Mac	16%	10%
Federal Farm Credit Bank	5%	9%
Corporate Note – Bank of New York	5%	2%
Corporate Note – Wells Fargo & Company	6%	3%

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, 2014 and 2013. 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, 2014, SMUD's cash, cash equivalents, and investments consist of the following:

		Remaining Maturities (in years)			
Description	Credit Rating	Less Than 1	1-5	More than 5	Total Fair Value
		(thousands of dollars)			
Cash and Cash Equivalents:					
Cash	Not Rated	$ 4,350	$ -0-	$ -0-	$ 4,350
LAIF	Not Rated	150,745	-0-	-0-	150,745
Money Market Mutual Funds	AAAm/N/A	124,990	-0-	-0-	124,990
Money Market Deposit Account	N/A	36,390	-0-	-0-	36,390
Deposit at Notice	N/A	9,319	-0-	-0-	9,319
Commercial Paper	A-1	11,267	-0-	-0-	11,267
Total cash and cash equivalents		337,061	-0-	-0-	337,061
Investments:					
Fannie Mae	AA+	20,248	19,962	-0-	40,210
Federal Farm Credit Bank	AA+	32,057	5,545	-0-	37,602
Federal Home Loan Bank	AA+	47,899	75,843	-0-	123,742
Freddie Mac	AA+	19,968	95,484	-0-	115,452
US Treasury	N/A	3,055	13,142	-0-	16,197
Corporate Notes	AA+/AA/A+/A/A-	100,476	83,325	-0-	183,801
Municipal Bonds	A+/AA	2,502	1,501	-0-	4,003
Commercial Paper	A-1+	26,954	-0-	-0-	26,954
Total investments		253,159	294,802	-0-	547,961
Total cash, cash equivalents, and investments		$ 590,220	$ 294,802	$ -0-	$ 885,022

At December 31, 2013, 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	$ 4,358	$ -0-	$ -0-	$ 4,358
LAIF	Not Rated	270,749	-0-	-0-	270,749
Money Market Mutual Funds	AAAm/N/A	94,317	-0-	-0-	94,317
Money Market Deposit Account	AAAm	6,990	-0-	-0-	6,990
Deposit at Notice	N/A	1,414	-0-	-0-	1,414
Commercial Paper	A-1	10,712	-0-	-0-	10,712
Total cash and cash equivalents		388,540	-0-	-0-	388,540
Investments:					
Fannie Mae	AA+	10,650	85,606	-0-	96,256
Federal Farm Credit Bank	AA+	30,032	37,577	-0-	67,609
Federal Home Loan Bank	AA+	65,995	27,813	-0-	93,808
Freddie Mac	AA+	2,005	71,658	-0-	73,663
US Treasury	N/A	25,059	3,103	-0-	28,162
Corporate Notes	AA+/A+/A1/A/A-	52,714	48,588	-0-	101,302
Municipal Bonds	A1/SP-1+	8,067	2,508	-0-	10,575
Commercial Paper	A-1	43,916	-0-	-0-	43,916
Total investments		238,438	276,853	-0-	515,291
Total cash, cash equivalents, and investments		$ 626,978	$ 276,853	$ -0-	$ 903,831

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

	December 31, 2014	2013
	(thousands of dollars)	
Total Cash, Cash Equivalents, and Investments:		
Revenue bond reserve and debt service funds:		
Revenue bond reserve fund	$ 8,659	$ 9,844
Debt service fund	67,551	69,815
Component unit bond reserve and debt service funds	54,220	53,813
Total revenue bond reserve and debt service funds	130,430	133,472
Nuclear decommissioning trust fund	8,250	31,137
Rate stabilization fund	45,306	81,474
Component unit other restricted funds	65,198	54,519
Other restricted funds	1,554	1,254
Unrestricted funds	634,284	601,975
Total cash, cash equivalents, and investments	$ 885,022	$ 903,831

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. In 2014, SMUD's cash payments to TANC exceeded TANC's accrual-based costs and has recorded a regulatory credit.

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. In 2014, SMUD made its final payment 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).

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 recognized or deferred into future years. SMUD has spent more than it has collected in SB-1 revenues and has recorded a regulatory asset.

Debt Issuance Costs. SMUD established a regulatory asset for costs incurred in connection with the issuance of debt obligations, principally underwriter fees and legal costs. The regulatory asset will be collected in rates over the life of the bonds. Debt issuance costs after December 31, 2013 are expensed.

SMUD's total regulatory costs for future recovery are presented below:

	December 31,	
	2014	2013
	(thousands of dollars)	
Regulatory Costs for Future Recovery:		
Decommissioning	$ 149,337	$ 142,485
TANC operations costs	-0-	841
U.S. Bureau of Reclamation	-0-	391
Derivative financial instruments	32,144	24,326
Senate Bill 1	7,398	7,729
Debt Issuance Costs	14,752	16,466
Total regulatory costs	203,631	192,238
Less: regulatory costs to be recovered within one year	(20,838)	(17,668)
Total regulatory costs for future recovery - net	$ 182,793	$ 174,570

Regulatory Credits

CIAC. In 2014 and 2013 SMUD added CIAC totaling $20.2 million and $10.6 million, respectively, to Regulatory Credits in the Consolidated Statements of Net Position and recorded $10.4 million and $10.0 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 2014, $11.8 million was transferred from the RSF to revenue as a result of lower than budgeted energy deliveries from Western Area Power Administration (Western).

Hydro Rate Stabilization. The Hydro Rate Stabilization Fund (HRSF) was established through the Hydro Generation Adjustment (HGA) mechanism, which helps manage volatility in energy costs. The HGA mechanism applies a formula based on precipitation and wholesale electricity prices to calculate needed withdrawals from or deposits to the HRSF. The maximum balance of the HRSF is 5 percent of the budgeted retail revenue and the maximum annual transfer in or out of the HRSF is 4 percent of budgeted retail revenue. If the HRSF is depleted SMUD will apply a hydro rate surcharge to customers' bills up to 4 percent. When the HRSF is fully replenished, a wet year can trigger a hydro rebate or credit on the customers' bills. In 2014, $24.3 million was transferred from the HRSF to revenue as a result of below average precipitation. No additional rate adjustments were necessary.

Assembly Bill 32. SMUD participated in the carbon allowance auctions 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. SMUD has spent less than it has 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.

SMUD's total regulatory credits for future revenue recognition are presented below:

	December 31, 2014	December 31, 2013
	(thousands of dollars)	
Regulatory Credits:		
CIAC	$ 241,427	$ 231,612
Rate stabilization	42,251	54,070
Hydro rate stabilization	3,055	27,404
Assembly Bill 32	5,339	3,441
Grant revenues	69,172	75,123
TANC operations Costs	7,687	-0-
Precipitation hedge	-0-	11,547
Total regulatory credits	$ 368,931	$ 403,197

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 set by an executive committee for the use of derivative financial instruments for trading purposes. These contracts are evaluated pursuant to SGAS No. 53 ***"Accounting and Financial Reporting for Derivative Instruments"*** (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 are deferred for rate-making purposes as regulatory assets or liabilities on the Consolidated Statements of Net Position (see Note 8).

During 2014 and 2013, 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 following table. 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, 2014 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2014 Changes in Fair Value		Fair Value at December 31, 2014		
	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	$ (272)	$ (147)	$ -0-	$ -0-	
Gas – Storage	(7)	-0-	-0-	-0-	
Gas – Transportation	39	-0-	39	-0-	380 Dth
Total Investment Derivative Instruments	$ (240)	$ (147)	$ 39	$ -0-	
Asset: Hedging Derivative Instruments					
Gas – Basis	$ 37	$ (476)	$ 560	$ 179	9,860 Dth
Gas – Commodity	(1,115)	(176)	860	-0-	893 Dth
Gas – Storage	21	-0-	42	-0-	528 Dth
Gas – Transportation	688	(826)	1,023	149	10,955 Dth
Interest Rate	(485)	1,477	6,540	25,375	$131,030
Total Hedging Derivative Instruments	$ (854)	$ (1)	$ 9,025	$ 25,703	
Liability: Investment Derivative Instruments					
Gas – Basis	$ (331)	$ -0-	$ 331	$ -0-	300 Dth
Gas – Commodity	(4,552)	(3,914)	4,589	4,228	10,510 Dth
Gas – Storage	2	-0-	-0-	-0-	
Interest Rate	1,649	(285)	7,375	15,660	$227,190
Total Investment Derivative Instruments	$ (3,232)	$ (4,199)	$ 12,295	$ 19,888	
Liability: Hedging Derivative Instruments					
Gas – Basis	$ (2,290)	$ -0-	$ 2,290	$ -0-	2,140 Dth
Gas – Commodity	(33,552)	(14,162)	49,370	100,306	101,268 Dth
Gas – Storage	376	-0-	18	-0-	288 Dth
Gas – Transportation	(49)	-0-	49	-0-	3,270 Dth
Total Hedging Derivative Instruments	$ (35,515)	$ (14,162)	$ 51,727	$ 100,306	

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, 2013 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2013 Changes in Fair Value		Fair Value at December 31, 2013		
	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	$ 272	$ 112	$ 272	$ 147	3,235 Dth
Gas – Storage	(12)	-0-	7	-0-	78 Dth
Total Investment Derivative Instruments	$ 260	$ 112	$ 279	$ 147	
Asset: Hedging Derivative Instruments					
Gas – Basis	$ 523	$ 655	$ 523	$ 655	10,950 Dth
Gas – Commodity	1,975	(677)	1,975	176	13,373 Dth
Gas – Storage	(514)	-0-	21	-0-	148 Dth
Gas – Transportation	335	975	335	975	16,425 Dth
Interest Rate	57	(12,349)	7,025	23,898	$131,030
Total Hedging Derivative Instruments	$ 2,376	$ (11,396)	$ 9,879	$ 25,704	
Liability: Investment Derivative Instruments					
Gas – Commodity	$ 10,994	$ 19	$ 37	$ 314	2,938 Dth
Gas – Storage	4	-0-	2	-0-	78 Dth
Gas – Transportation	7	-0-	-0-	-0-	
Interest Rate	615	15,691	9,024	15,375	$260,480
Total Investment Derivative Instruments	$ 11,620	$ 15,710	$ 9,063	$ 15,689	
Liability: Hedging Derivative Instruments					
Gas – Basis	$ 85	$ -0-	$ -0-	$ -0-	
Gas – Commodity	65,367	(3,245)	15,818	86,144	89,698 Dth
Gas – Storage	(384)	-0-	394	-0-	1,428 Dth
Gas – Transportation	88	-0-	-0-	-0-	
Total Hedging Derivative Instruments	$ 65,156	$ (3,245)	$ 16,212	$ 86,144	

Objectives and terms of hedging derivative instruments. The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2014 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 Dth	Beginning Date	Ending Date	Minimum Price/Dth	Maximum Price/Dth
Gas – Basis	12,300	01/01/15	12/31/16	$ (0.82)	$ 3.39
Gas – Commodity	112,671	01/01/08	12/31/22	3.15	7.17
Gas – Storage	816	01/01/15	03/31/15	.25	.40
Gas – Transportation	14,605	01/01/15	12/31/16	(0.36)	(0.13)

The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2013 are summarized in the table below. The table is aggregated by the trading strategy.

	Notional Amount Dth	Beginning Date	Ending Date	Minimum Price/Dth	Maximum Price/Dth
Gas – Basis	10,950	01/01/14	12/31/15	$ (0.74)	$ (0.62)
Gas – Commodity	109,244	01/01/08	12/31/22	3.83	7.17
Gas – Storage	1,732	01/01/14	03/31/14	.17	4.71
Gas – Transportation	16,425	01/01/14	12/31/15	(0.36)	(0.10)

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 Deferred Outflows or Inflows of Resources 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, 2014.

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.

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 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 decrease 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 (See Note 2).

The counterparties' current credit rating at December 31, 2014 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	A-
Bank of Montreal	A+
BNP Paribas Energy Trading GP.	A+
Citigroup Inc.	Baa2
Deutsche Bank AG	A3
EDF Trading North America LLC	A3
Goldman Sachs Group Inc.	Baa1
J.P. Morgan Ventures Energy Corp.	A3
Macquarie Bank Limited	BBB
Bank of America Corp	Baa2
Morgan Stanley Capital Group, Inc.	Baa2
Interest Rate Contracts:	
Goldman Sachs Capital Markets, L.P.	A-
Goldman Sachs Mitsui Marine Derivative Products L.P.	AAA
Morgan Stanley Capital Services, Inc.	A-

NOTE 10. LONG-TERM DEBT

SMUD's total long-term debt is presented below:

	December 31, 2014	December 31, 2013
	(thousands of dollars)	
Electric revenue bonds, 3.0%-6.32%, 2015-2041	$ 1,873,105	$ 1,971,390
Subordinated electric revenue bonds, index rates, 2015-2041	347,850	347,850
Total electric revenue bonds	2,220,955	2,319,240
Component unit project revenue bonds, 3.75%-5.25%, 2015-2030	373,670	399,295
Gas supply prepayment bonds, index rates, 2015-2027	342,480	364,860
Total long-term debt outstanding	2,937,105	3,083,395
Bond premiums - net	115,026	130,007
Total long-term debt	3,052,131	3,213,402
Less: amounts due within one year	(170,430)	(137,600)
Total long-term debt - net	$ 2,881,701	$ 3,075,802

The summarized activity of SMUD's long-term debt during 2014 is presented below:

	December 31, 2013	Additions	Payments or Amortization	December 31, 2014	Amounts Due Within One Year
			(thousands of dollars)		
Electric revenue bonds	$ 1,971,390	$ -0-	$ (98,285)	$ 1,873,105	$ 87,025
Subordinate electric revenue bonds	347,850	-0-	-0-	347,850	3,000
Component unit project revenue bonds	399,295	-0-	(25,625)	373,670	56,720
Gas supply prepayment bonds	364,860	-0-	(22,380)	342,480	23,685
Total	3,083,395	-0-	(146,290)	2,937,105	$ 170,430
Unamortized premiums - net	130,007	-0-	(14,981)	115,026	
Total long-term debt	$ 3,213,402	$ -0-	$ (161,271)	$ 3,052,131	

The summarized activity of SMUD's long-term debt during 2013 is presented below:

	December 31, 2012	Additions	Payments or Amortization	December 31, 2013	Amounts Due Within One Year
			(thousands of dollars)		
Electric revenue bonds	$ 1,943,130	$ 308,415	$ (280,155)	$ 1,971,390	$ 89,595
Subordinate electric revenue bonds	347,850	-0-	-0-	347,850	-0-
Component unit project revenue bonds	423,915	-0-	(24,620)	399,295	25,625
Gas supply prepayment bonds	386,655	-0-	(21,795)	364,860	22,380
Total	3,101,550	308,415	(326,570)	3,083,395	$ 137,600
Unamortized premiums - net	109,065	45,106	(24,164)	130,007	
Total long-term debt	$ 3,210,615	$ 353,521	$ (350,734)	$ 3,213,402	

At December 31, 2014 scheduled annual principal maturities and interest are as follows:

	Principal	Interest	Total
		(thousands of dollars)	
2015	$ 170,430	$ 129,279	$ 299,709
2016	147,675	123,299	270,974
2017	155,930	116,451	272,381
2018	155,975	109,088	265,063
2019	164,730	103,282	268,012
2020 – 2024 (combined)	736,965	423,265	1,160,230
2025 – 2029 (combined)	673,740	268,904	942,644
2030 – 2034 (combined)	397,775	141,767	539,542
2035 – 2039 (combined)	275,900	34,554	310,454
2040 – 2041 (combined)	57,985	3,388	61,373
Total Requirements	$ 2,937,105	$ 1,453,277	$ 4,390,382

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 0.03 percent and 0.04 percent in effect at December 31, 2014 for the issues.

The following bonds have been issued and are outstanding at December 31, 2014:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount
Electric Revenue Bonds:					
06/15/1997	1997 Series K Bonds	07/01/2024	5.25% - 5.9%	$ 131,030,000	131,030,000
06/04/2003	2003 Series R Bonds	08/15/2015	3.25% - 5.0%	481,275,000	25,270,000
06/09/2008	2008 Series U Bonds	08/15/2028	3.125% - 5.0%	521,730,000	473,800,000
05/15/2009	2009 Series V Bonds	05/15/2036	6.322%	200,000,000	200,000,000
07/29/2010	2010 Series W Bonds	05/15/2036	6.156%	250,000,000	250,000,000
10/04/2011	2011 Series X Bonds	08/15/2028	3.0% - 5.0%	325,550,000	304,545,000
05/31/2012	2012 Series Y Bonds	08/15/2033	3.0% - 5.0%	196,945,000	195,170,000
05/21/2013	2013 Series A Bonds	08/15/2041	3.75% - 5.0%	132,020,000	132,020,000
05/21/2013	2013 Series B Bonds	08/15/2033	3.0% - 5.0%	118,615,000	118,615,000
08/20/2013	2013 Series C Bonds	08/15/2017	5.0%	57,780,000	42,655,000
JPA Electric Revenue Bonds					
08/19/2009	2009 CVFA Bonds	07/01/2020	2.25% - 5.25%	$ 48,920,000	29,115,000
08/19/2009	2009 SCA Bonds	07/01/2021	4.0% - 5.25%	57,530,000	40,120,000
01/19/2006	2006 SFA Bonds	07/01/2030	3.25% - 5.25%	300,375,000	233,155,000
04/20/2005	2005 SPA Bonds	07/01/2022	3.0% - 5.5%	122,960,000	71,280,000
05/31/2007	2007B NCGA#1 Bonds	07/01/2027	Index Rate	668,470,000	342,480,000
Subordinated Electric Revenue Bonds					
08/14/2008	2008 Series J Bonds	08/15/2028	Index Rate	$ 120,000,000	$ 120,000,000
08/14/2008	2008 Series K Bonds	08/15/2028	Index Rate	77,850,000	77,850,000
02/29/2012	2012 Series L Bonds	08/15/2041	Index Rate	75,000,000	75,000,000
02/29/2012	2012 Series M Bonds	08/15/2041	Index Rate	75,000,000	75,000,000

2014 Bond Redemption. In December 2014, SMUD redeemed $8.7 million of 2004 Series T Electric Revenue Refunding Bonds. The redemption resulted in a current accounting gain of $23 thousand, which is included in Interest on Debt in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position. Redeeming the bonds will reduce the aggregate future debt service payments by $11.0 million.

2013 Bond Refundings and Redemptions. In May 2013, SMUD issued $118.6 million of 2013 Series B Electric Revenue Refunding Bonds (2013 Series B bonds). Proceeds from the 2013 Series B bonds and $6.7 million of available funds were used to refund $141.5 million of the outstanding 2003 Series R, and 2004 Series T 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 gain of $2.0 million, which is being amortized over the life of the refunding issue. The 2013 Series B refunding reduced future aggregate debt service payments by $33.8 million and resulted in a total economic gain of $22.5 million, which is the present value of the difference between the old and new debt service payments.

In August 2013, SMUD issued $57.8 million of 2013 Series C Electric Revenue Refunding Bonds (2013 Series C bonds). Proceeds from the 2013 Series C bonds and $4.3 million of available funds were used to refund $65.9 million of the outstanding 2003 Series S 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 $0.3 million, which is being amortized over the life of the refunding issue. The 2013 Series C refunding reduced future aggregate debt service payments by $12.1 million and resulted in a total economic gain of $6.2 million, which is the present value of the difference between the old and new debt service payments.

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:

Notional Amount (thousands)	SMUD Pays	Fixed Rate	Floating Rate	Termination Date	Counterparty Credit Rating
$ 131,030	Variable	5.154%	SIFMA	07/01/24	A-
120,715	Fixed	4.345%	70% of LIBOR	08/15/18	AAA
106,475	Fixed	2.894%	63% of LIBOR	08/15/28	A-

SMUD has a fixed-to-variable interest rate swap agreement with a 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 (0.04 percent at December 31, 2014) and receives fixed rate payments of 5.154 percent. In connection with the swap agreement, SMUD has a put option agreement, also with a 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 notional amount of $227.2 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 three interest rate swap agreements, which are summarized as follows. The credit ratings listed are from S&P:

Notional Amount (thousands)	NCGA Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating
$ 78,005	Fixed	4.062%	67% of LIBOR +.60%	07/01/17	A-
65,865	Fixed	4.144%	67% of LIBOR +.63%	07/01/19	A-
198,610	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A-

At December 31, 2014 NCGA has three 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 (0.26 percent at December 31, 2014) plus an interest rate spread, as specified in each swap agreement. The total notional amount of the three swaps at December 31, 2014 was $342.5 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 0.03 percent to 0.04 percent at December 31, 2014. 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, if the bonds can't be remarketed, SMUD has in place reimbursement agreements with Bank of America, State Street, and US Bank to enable SMUD to pay off the bonds over five years. 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. SMUD guarantees 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, under a "take or pay" contract. CVFA and SCA are not required to repay SMUD for any amounts paid under this guarantee.

In December 2014, SPA notified the bondholders about a partial redemption of the 2005 SPA Bonds. SPA will redeem $29.9 million of the Bonds maturing July 2020 through 2022 in January 2015. The $29.9 million principal amount is included in Long-term debt due within one year on the Consolidated Statements of Net Position. See Note 18 for Subsequent Event.

Callable Bonds. SMUD has $797.9 million of Electric 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. SMUD also has $1,052.7 million of bonds that become callable from 2018 through 2024, 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 1997 through 2014. 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 2041 at December 31, 2014.

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, 2014	December 31, 2013
	(thousands of dollars)	
Pledged future revenues	$ 2,937,105	$ 3,083,395
Principal and interest payments for the year ended	$ 271,373	$ 253,612
Total net revenues for the year ended	$ 834,442	$ 871,331
Total remaining principal and interest to be paid	$ 4,390,382	$ 4,687,275
Annual principal and interest payments as a percent of net revenues For the year ended	33%	29%

NOTE 11. COMMERCIAL PAPER NOTES

SMUD issues Commercial Paper Notes (Notes) to finance or reimburse capital expenditures. At December 31, 2014 and 2013 Notes outstanding totaled $200.0 million. The effective interest rate for the Notes outstanding at December 31, 2014 was 0.1 percent and the average term was 77 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 2014 and 2013 is presented below:

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
		(thousands of dollars)		
December 31, 2014	$ 200,000	$ -0-	$ -0-	$ 200,000
December 31, 2013	$ 200,000	$ -0-	$ -0-	$ 200,000

NOTE 12. 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 and the separately licensed Independent Spent Fuel Storage Facility (ISFSI). 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 for the nuclear power plant, which delineates a phased process, and the first phase of physical work was completed in 2008. Decommissioning of the ISFSI will occur after the DOE removes the spent nuclear fuel and high level waste from the site.

In 2009, the NRC released all of the land formerly under the Part 50 license for unrestricted use with the exception of the 1 acre fenced area around the Interim Onsite Storage Building that was previously used to store low-level radioactive waste produced during the decommissioning of the nuclear reactor facility. This waste was disposed of in 2014. The decommissioning of that remaining facility will begin in 2015 and when completed, will result in termination of the former operating license issued under Part 50.

The DOE, under the Nuclear Waste Policy Act of 1982, is responsible for permanent disposal of spent nuclear fuel and high-level radioactive waste which are currently in storage at the ISFSI. 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. All of SMUD's spent fuel and GTCC waste are currently stored in sealed canisters in the ISFSI. 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. The DOE evaluated the recommendations and published the report "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in January 2013. The next phase of the process will be for Congress and the President of the United States to consider the recommendations and enact legislation to implement 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. The ISFSI 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 decrease in costs in the 2014 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,	
	2014	2013
	(thousands of dollars)	
Active decommissioning	$ 16,067	$ 33,872
Spent fuel management	136,010	135,252
Total ARO	$ 152,077	$ 169,124
Less: current portion	(7,879)	(19,759)
Total Non-current portion of ARO	$ 144,198	$ 149,365

The summarized activity of the Rancho Seco ARO during 2014 and 2013 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,	
	2014	2013
	(thousands of dollars)	
ARO at beginning of year	$ 169,124	$ 169,980
Accretion	8,291	8,331
Expenditures	(27,587)	(5,160)
Change in Study	(399)	(1,967)
Annual adjustments	2,648	(2,060)
ARO at end of year	$ 152,077	$ 169,124

NOTE 13. 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 seven percent of their annual covered salary. SMUD makes partial contributions required of SMUD employees on their behalf and for their account. SMUD is currently required to contribute approximately 11 percent of payroll to the plan. The contribution requirements of plan members and SMUD are established by PERS. On January 1, 2013, the public Employee's Pension Reform Act of 2013 took effect, requiring a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost rate.

Annual Pension Cost. SMUD has the option to prepay an annual lump sum payment to PERS. In July 2014, SMUD made a lump sum payment to PERS for the period July 1, 2014 - June 30, 2015 for $22.5 million. At December 31, 2014, $11.2 million is included in the Consolidated Statements of Net Position as Prepayments.

Payments to PERS are presented below:

	2014	2013
	(thousands of dollars)	
SMUD payments for PERS contributions	$ 32,373	$ 31,092
Employee payments for additional service credits	487	584
Employee payments for PERS contributions	4,304	2,375
Total payments to PERS	$ 37,164	$ 34,051

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 2014 was determined by PERS as part of the annual actuarial valuation as of June 30, 2012; the contribution for the second half of 2014 was determined by PERS as part of the annual actuarial valuation as of June 30, 2013. The actuarial assumptions included: (a) a 7.5 percent investment rate of return (net of administrative expenses) for 2014 and 2013, (b) projected annual salary increases that vary by duration of service, and (c) a 3.0 percent per year payroll growth. Both (a) and (b) also included an inflation component of 2.75 percent. On April 13, 2013, PERS changed their amortization and smoothing policies. Effective with June 30, 2013 valuations, PERS no longer uses an actuarial value of assets but uses the market value of assets, and employs an amortization and smoothing policy that spreads rate increases or decreases over a 5-year period, and amortizes all experience gains and losses over a fixed 30-year period. All changes in liability due to plan amendments, and changes in actuarial assumptions or methodology are amortized separately over a 20-year period. 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)	Percentage of APC Contribution
	(thousands of dollars)	
06/30/14	$ 31,028	100%
06/30/13	$ 31,215	100%
06/30/12	$ 32,064	100%

Funded Status and Funding Progress. As of June 30, 2013, the most recent actuarial valuation date, the plan was 79.9 percent funded. The actuarial accrued liability for benefits was $1,778.4 million, and the actuarial value of assets which equals the market value was $1,421.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of $356.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $185.6 million, and the ratio of the UAAL to the covered payroll was 192.0 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 also matches non-represented employee contributions to the 401(k) Plan up to a set amount. SMUD made contributions into the 401(k) Plan of $2.9 million in 2014 and $1.6 million 2013. SMUD does not match employee contributions, nor make contributions on behalf of its employees to the 457 Plan. Participating employees made contributions into both Plans totaling $16.8 million in 2014 and $16.2 million in 2013.

NOTE 14. 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 June 30, 2014, 5,181 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 2014 funded an additional $40.0 million to the CERBT. In 2014 and 2013, the net ARC contribution to the CERBT was $6.8 and $8.6 million, respectively. During 2014 and 2013, SMUD made healthcare benefit contributions by paying actual medical costs of $23.6 million and $22.2 million, respectively.

Funding Status and Funding Progress. At June 30, 2014 and 2013, SMUD estimates that the actuarially determined accumulated postemployment benefit obligation was approximately $505.1 and $492.7 million, respectively. At June 30, 2014 and 2013, the plan was 25.6 and 21.0 percent funded, respectively. The covered payroll (annual payroll of active employees covered by the plan) at June 30, 2014 and 2013, was $187.2 and $179.7 million, respectively. The ratio of the UAAL to covered payroll was 200.7 percent at June 30, 2014.

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 2014, SMUD's annual OPEB Cost (expense) was $29.4 million.

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,	
	2014	2013
	(thousands of dollars)	
Annual required contribution	$ 29,833	$ 29,665
Interest on net OPEB obligation	(2,704)	(2,671)
Annual required contribution adjustment	2,251	2,153
Annual OPEB cost	29,380	29,147
Contributions made	(70,361)	(30,788)
Increase / (Decrease) in net OPEB obligation	(40,981)	(1,641)
Net OPEB (asset), beginning of year	(36,742)	(35,101)
Net OPEB (asset), end of year	$ (77,723)	$ (36,742)

SMUD's Net OPEB Obligation (asset) is recorded for 2014 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 2014 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, 2014	$29,380	239%	(77,723)
December 31, 2013	$29,147	106%	(36,742)
December 31, 2012	$26,123	229%	(35,101)

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 June 30, 2014 and 2013 actuarial valuation. Actuarial assumptions used a 7.36 percent investment rate of return (net of administrative expenses), and a 3.0 percent inflation assumption. For 2014, the actuarial assumptions for an annual healthcare cost trend growth rate ranged from 1.3 to 12.1 percent for the current year, 7.5 to 8.0 percent for 2015, and 7.0 to 7.5 percent for 2016. The UAAL will be amortized as a percentage of payroll over an open 30-year period. At June 30, 2014 and 2013 the actuarial value of the assets was $129.5 and $103.3 million, 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 15. 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 2014, 2013 and 2012, 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, Unearned Revenue 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, 2014, 2013 and 2012 is presented below:

	2014	2013	2012
		(thousands of dollars)	
Workers' compensation claims	$ 11,220	$ 11,291	$ 9,352
General and auto claims	825	669	573
Short- and long-term disability claims	121	391	168
Claims liability	$ 12,166	$ 12,351	$ 10,093

Changes in SMUD's total claims liability during 2014, 2013, and 2012 is presented below:

	2014	2013	2012
		(thousands of dollars)	
Claims liability, beginning of year	$ 12,351	$ 10,093	$ 10,265
Add: provision for claims, current year	2,122	4,105	1,941
Increase in provision for claims in prior years	2,930	3,433	4,205
Less: payments on claims attributable to current and prior years	(5,237)	(5,280)	(6,318)
Claims liability, end of year	$ 12,166	$ 12,351	$ 10,093

NOTE 16. 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, 2014, the approximate minimum obligations for the take or pay contracts over the next five years are as follows:

	Electric	Gas
	(thousands of dollars)	
2015	$ 31,874	$ 17,164
2016	32,688	17,015
2017	33,559	17,309
2018	34,148	17,635
2019	34,148	17,984

At December 31, 2014, 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)	
2015	$ 119,299	$ 149,436
2016	119,782	130,904
2017	127,421	132,708
2018	119,594	133,559
2019	126,643	123,819

Contractual Commitments beyond 2019 – Electricity. Several of SMUD's purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2020 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 $32.2 million in 2020 and $5.7 million in 2033. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the energy is delivered, ranges between $134.3 million in 2020 and $1.6 million in 2033. SMUD's largest purchase power source is the Western Base Resource contract, whereby SMUD receives 25.4 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 25.4 percent share of their revenue requirement. The Western contract expires on December 31, 2024.

Contractual Commitments beyond 2019 - Gas. Contractual Commitments beyond 2019 - 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 2020 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 $18.3 million in 2020 and $10.0 million in 2040. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the gas is delivered, ranges between $120.0 million in 2020 and $21.4 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 2016 and 2017. 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 138,612,500 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 $3.15 to $7.17 per Dth. The swap agreements expire periodically from January 2015 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 56,000 Dth per day (Dth/d) of natural gas pipeline capacity from the North, including the Canadian Basins through 2023 and 54,000 Dth/d from the Southwest or Rocky Mountain Basins through at least 2019.

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 2015, dropping to 1.0 million Dth through March 2016.

Hydro License Agreements. SMUD has a hydro license for a term of 50 years effective July 1, 2014 (see Note 2). SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. Each contract is adjusted annually by an inflation index. The present value of the sum of the annual payments is $56.1 million at December 31, 2014.

NOTE 17. CLAIMS AND CONTINGENCIES

FERC Administrative Proceedings. SMUD is involved in a number of FERC administrative proceedings related to the operation of wholesale energy markets, regional transmission planning, gas transportation, and the development of North American Electric Reliability Corporation (NERC) reliability standards. While these proceedings are complex and numerous, they generally fall into the following categories: (i) filings initiated by the California Independent System Operator Corporation (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 costs to their existing wholesale transmission customers; (iii) filings initiated by FERC or market participants to establish market design and behavior rules or to complain about or investigate market behavior by certain market participants; (iv) filings initiated by transmission owners under their transmission owner tariffs for the purpose of establishing a regional transmission planning process; (v) filings initiated by providers of firm gas transportation service under the Natural Gas Act; and (vi) filings initiated by NERC to develop reliability standards applicable to owners, users, and operators of the bulk electric system. 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.

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.

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 recorded a liability related to the investigation, design and remediation necessary for the North City Site in the amount of $12.0 million estimated for the entire project. As the owner of the North City Site, SMUD will have a role in the remediation selection and activities, as may those who operated or used the North City Site for landfill purposes. 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 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 North City Site, SMUD management believes that the outcome of these remediation costs will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

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. SMUD settled with these businesses and waived a potential future legal claim for cleanup funding. 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 at areas south of the Kramer property. The contamination appears to emanate primarily from the Site, with some contribution from the Kramer property. Preliminary environmental investigations of the Kramer property, the Site and areas south of the Kramer property indicate that total remediation costs may exceed $2.0 million. SMUD does not believe that it is the source of the contamination. Nonetheless, since Kramer is bankrupt and Willamette contends it is exempt from liability under a secured creditor exemption, it is unclear whether it would be beneficial for SMUD to take legal action for contribution. 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 refuse to pay their entire share of the costs, SMUD’s share of remediation costs would increase; alternatively, SMUD could potentially acquire the Kramer property at a nominal or greatly reduced cost, giving SMUD an asset with value that will materialize after the cleanup. 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.

East Campus – Operations Center Dispute (Turner Construction Company). In December 2010, SMUD entered into the East Campus – Operations Center Design-Build Agreement (Agreement) for $112.0 million with Turner Construction Company (Turner) to construct the East Campus – Operations Center (EC-OC) design-build project (Project). In April 2013, SMUD provided Turner with notice of substantial completion of the Project. Section 18.4(a) of the Agreement requires SMUD to purchase a project errors and omissions policy (Project E&O Policy) for the Project. Turner has alleged that SMUD has breached the Agreement because the Project E&O Policy purchased by SMUD does not comply with Section 18.4(a) of the Agreement for two reasons: (1) the Project E&O Policy does not cover “all claims” for design defects, because the Project E&O Policy’s insured vs. insured exclusion prohibits Turner from recovering under the policy for design defects on the part of other insureds, and (2) SMUD purchased extended reporting period (tail) coverage for only five, rather than ten years. Turner asserts claims arising from the breach of the Agreement in the amount of $3.9 to $5.1 million. Turner has triggered the dispute resolution process within the Agreement and provided Notice of Intent to Initiate Arbitration. Arbitration commenced on January 21, 2015. SMUD’s management believes the claims are without merit. In any event, SMUD’s management believes that the outcome of this matter 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.

NOTE 18. SUBSEQUENT EVENT

On January 5, 2015, SPA redeemed $29.9 million of 2005 SPA Bonds. See Component Unit Bonds in Note 10.

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)			
06/30/2013	$ 1,421,522	$ 1,778,351	$ 356,829	79.9%	$ 185,863	192.0%
06/30/2012	$ 1,561,647	$ 1,693,613	$ 131,966	92.2%	$ 177,772	74.2%
06/30/2011	$ 1,528,294	$ 1,634,178	$ 105,884	93.5%	$ 182,872	57.9%

* Starting 6/30/13, Actuarial Value of Assets equals the market value of the assets per PERS smoothing policy approved on April 13, 2013.

OPEB. The schedule of funding progress for the other postemployment 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)			
06/30/2014	$ 129,493	$ 505,142	$ 375,649	25.6%	$ 187,151	200.7%
06/30/2013	$ 103,251	$ 492,651	$ 389,400	21.0%	$ 179,733	216.7%
06/30/2012	$ 52,724	$ 424,738	$ 372,014	12.4%	$ 174,618	213.0%
06/30/2011	$ 47,843	$ 362,469	$ 314,626	13.2%	$ 171,411	183.6%

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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		Commerical Time-of-Use			Street & Traffic	Night Lighting	Total Sales (MWh)
Year	Month	Elect Heat	Std Heat		< 19 kW	20 - 299 kW	300 - 499 kW	500 - 999 kW	=> 1000 kW			
2016	1	141,599	301,565	2,127	69,505	144,122	52,803	53,965	161,397	6,727	297	934,107
	2	112,257	254,612	2,121	65,776	140,413	52,796	51,136	154,079	6,736	296	840,221
	3	93,064	237,073	2,199	64,699	141,953	54,592	52,375	157,118	6,982	306	810,361
	4	76,017	217,383	3,233	58,634	134,129	50,617	49,179	148,933	6,754	295	745,174
	5	75,399	237,269	5,583	60,265	142,089	53,140	51,404	147,965	6,765	294	780,175
	6	95,079	314,519	9,077	68,004	159,791	56,108	56,803	161,256	6,771	294	927,701
	7	111,283	397,337	11,169	72,731	168,073	58,702	59,439	165,699	6,770	293	1,051,496
	8	105,674	375,556	11,197	70,990	165,173	59,122	61,849	174,039	6,775	292	1,030,665
	9	105,760	369,563	9,907	72,172	165,549	59,627	60,338	167,733	6,780	292	1,017,720
	10	73,854	243,905	5,559	62,836	150,927	56,204	58,303	164,246	6,813	292	822,938
	11	77,164	225,105	3,172	59,670	139,364	53,404	52,776	161,495	6,818	291	779,258
	12	119,667	286,637	2,124	66,246	145,703	53,181	52,340	155,283	6,829	290	888,301
2017	1	139,056	304,476	2,124	70,107	144,308	52,930	53,613	162,090	6,842	288	935,833
	2	110,327	256,702	2,117	66,452	141,034	53,031	50,846	154,671	6,852	288	842,319
	3	87,756	228,991	2,119	62,914	136,968	52,696	50,016	152,196	6,857	288	780,801
	4	74,355	217,115	3,228	59,136	134,264	50,647	48,658	149,254	6,870	287	743,813
	5	73,906	236,832	5,575	60,816	142,358	53,124	50,820	148,096	6,881	286	778,694
	6	93,734	314,904	9,067	68,669	160,323	56,178	56,321	161,843	6,887	285	928,213
	7	110,013	398,175	11,157	73,455	168,700	58,817	58,970	166,251	6,886	285	1,052,709
	8	104,582	375,790	11,185	71,644	165,633	59,270	61,453	174,785	6,891	284	1,031,517
	9	104,784	369,529	9,897	72,895	166,159	59,829	59,963	168,465	6,896	284	1,018,700
	10	72,837	242,014	5,553	63,360	151,209	56,344	57,897	164,826	6,930	283	821,252
	11	76,182	223,037	3,168	60,209	139,700	53,515	52,341	162,054	6,935	283	777,424
	12	118,671	285,004	2,121	66,815	146,059	53,266	51,879	155,672	6,946	282	886,714

PRO FORMA CONSOLIDATED INCOME STATEMENT
2015-2017 ($ Millions)

	2015 Budget	2016 Projection	2017 Projection
Operating Revenues:			
Billed Sales	1,365.4	1,374.9	1,374.4
EAPR/MED Discounts	(46.9)	(49.7)	(53.6)
Recommended Revenue Adjustment		32.5	65.9
Uncollectable Electric Sales	(7.2)	(7.5)	(7.2)
Net Sales	**1,311.3**	**1,350.3**	**1,379.5**
Other Revenue	14.6	11.8	7.6
Total Revenue	**1,325.9**	**1,362.1**	**1,387.1**
Operating Expenses:			
Commodity	526.5	526.3	541.2
Energy Operations	75.3	80.1	88.4
Energy Assets	158.5	160.3	160.7
Customer/Commodity	93.4	106.0	112.6
Internal	35.8	35.4	36.6
Technology	9.8	5.3	6.0
Corporate	37.3	40.8	41.6
Public Good (excluding EAPR/MED Discount)	72.0	69.3	64.0
Total Operations	**1,008.6**	**1,023.5**	**1,051.2**
Depreciation, Depletion, and Amortization	192.4	189.1	191.8
Total Operating Expenses	**1,201.0**	**1,212.7**	**1,243.0**
Net Operating Income	**124.9**	**149.4**	**144.1**
Other (Income) Expenses:			
Interest Income and Other	(10.0)	(9.9)	(9.9)
Other Non Cash	(37.5)	(35.6)	(35.1)
Total Interest Income & Other	**(47.6)**	**(45.5)**	**(45.1)**
Interest Expense			
Interest Expense	99.2	97.3	95.3
Net Interest Charges	**99.2**	**97.3**	**95.3**
Change in net position - Net Income (Loss)	**73.3**	**97.7**	**93.8**
Cash Available for Fixed Debt Service	378.0	407.7	405.6
Interest Payments	134.5	139.1	144.0
Principal Payments	112.1	110.0	112.1
Total Fixed Debt Service	**246.6**	**249.0**	**256.1**
Fixed Charge Coverage Ratio	**1.53**	**1.64**	**1.58**

PRO FORMA CONSOLIDATED SOURCES AND USES OF CASH
2015-2017 ($ Millions)

	2015 Budget	2016 Projection	2017 Projection
Operating Sources of Funds:			
Receipt from Customers	1,309.3	1,350.3	1,379.5
Recommended Revenue Adjustment		32.5	65.9
Other Electric Revenue	20.6	17.2	19.5
Total Operating Sources of Funds:	**1,329.9**	**1,400.0**	**1,464.9**
Operating Uses of Funds:			
Net Operating Expenses	464.3	482.4	496.5
Commodity Expenses	497.7	512.6	527.5
Total Operating Uses of Funds:	**962.1**	**995.0**	**1,024.0**
Net Source of Funds from Operations:	**367.8**	**405.1**	**440.8**
Financing Sources of Funds:			
Issuance of Debt			125.0
Total Financing Sources of Funds:	**-**	**-**	**125.0**
Financing Uses of Funds:			
Capital & Reserve Expenditures	264.8	302.8	382.0
Principal Payments on Debt	117.5	121.8	126.7
Net Loans	8.4	10.7	8.0
Interest Payments on Debt	116.9	112.2	109.0
Net Use of Funds from Financing:	**507.6**	**547.5**	**625.7**
Investing Sources of Funds:			
Interest Income	7.7	7.7	7.7
Net Source of Funds from Investing:	**7.7**	**7.7**	**7.7**
Net Use of Funds	(132.1)	(135)	(52)

PRO FORMA CONSOLIDATED SOURCES AND USES OF CASH
2015-2017 ($ Millions)

	2015 Budget	2016 Projection	2017 Projection
Operating Sources of Funds:			
Receipt from Customers	1,309.3	1,350.3	1,379.5
Recommended Revenue Adjustment		32.5	65.9
Other Electric Revenue	20.6	17.2	19.5
Total Operating Sources of Funds:	**1,329.9**	**1,400.0**	**1,464.9**
Operating Uses of Funds:			
Net Operating Expenses	464.3	482.4	496.5
Commodity Expenses	497.7	512.6	527.5
Total Operating Uses of Funds:	**962.1**	**995.0**	**1,024.0**
Net Source of Funds from Operations:	**367.8**	**405.1**	**440.8**
Financing Sources of Funds:			
Issuance of Debt			125.0
Total Financing Sources of Funds:	**-**	**-**	**125.0**
Financing Uses of Funds:			
Capital & Reserve Expenditures	264.8	302.8	382.0
Principal Payments on Debt	117.5	121.8	126.7
Net Loans	8.4	10.7	8.0
Interest Payments on Debt	116.9	112.2	109.0
Net Use of Funds from Financing:	**507.6**	**547.5**	**625.7**
Investing Sources of Funds:			
Interest Income	7.7	7.7	7.7
Net Source of Funds from Investing:	**7.7**	**7.7**	**7.7**
Net Use of Funds	(132.1)	(135)	(52)

PRO FORMA CAPITAL EXPENDITURES
2015-2017 ($ Millions)

	2015 Budget	2016 Projection	2017 Projection
Energy Operations	7.1	6.8	5.6
Energy Assets	156.8	185.7	291.7
Customer/Commodity	1.0	1.6	1.7
Internal	51.8	62.8	40.8
Technology	30.6	30.7	26.8
Total Capital	247.3	287.5	366.5

SACRAMENTO MUNICIPAL UTILITY DISTRICT
ANNUAL SALES DATA BY RATE SCHEDULE - 2013
UNAUDITED

	RATE CATEGORY	2013 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR KWH	BILLED THIS YEAR REVENUE	ESTIMATED UNBILLED - DEC. 31, 2013 KWH	ESTIMATED UNBILLED - DEC. 31, 2013 REVENUE
AGRICULTURAL	AOD	5	422,954	60,019.88	17,515	2,865.00
	AON	4	67,360	7,554.10	761	143.00
	ASD	520	53,383,450	6,107,933.17	2,926,550	377,209.00
	ASN	1,858	22,530,358	2,901,727.75	932,142	123,699.00
	ASN-BH	1	19,200	1,928.66	2,632	307.00
TOTAL AGRICULTURAL		**2,388**	**76,423,322**	**9,079,163.56**	**3,879,600**	**504,223.00**
SMALL COMMERCIAL	GFN	461	60,470	74,067.35	4,051	4,662.00
	GSN	120	1,890,151	258,275.99	91,889	12,239.00
	GSN_T	50,986	577,037,485	80,352,106.24	37,711,651	5,224,066.00
	Various*	0	(32,489,000)	(1,612,643.07)	0	0.00
TOTAL SMALL COMMERCIAL		**51,567**	**546,499,106**	**79,071,806.51**	**37,807,591**	**5,240,967.00**
INDUSTRIAL	GSS_S	109	30,198,453	3,815,106.02	1,479,584	185,262.00
	GSS_T	11,152	1,926,055,966	246,244,050.94	120,185,553	15,243,966.00
	GUP_S	56	23,994,361	3,025,516.15	1,718,738	173,428.00
	GUS_S	549	662,702,427	76,561,660.41	41,053,071	3,922,169.00
	Sub-total	11,865	2,642,951,207	329,646,333.52	164,436,946	19,524,825.00
	GUP_M	14	21,814,560	2,476,140.12	1,524,658	143,990.00
	GUS_M	255	620,759,186	67,190,322.51	42,107,222	3,809,084.00
	GUT_M	5	2,924,173	423,376.01	237,777	33,012.00
	Sub-total	275	645,497,919	70,089,838.64	43,869,657	3,986,086.00
	GDT_99	2	112,077,520	8,583,168.87	12,031,776	871,856.00
	GNT_04	1	19,760,576	2,221,804.94	0	0.00
	GUP_L	35	391,291,749	37,862,035.76	27,205,449	2,411,886.00
	GUS_L	96	641,235,875	68,026,490.68	49,203,047	4,761,255.00
	GUT_L	21	625,663,628	57,206,463.47	49,627,978	4,216,959.00
	a) GUT_L19	1	6,511,823	1,071,369.70	0	49,302.00
	Various*	0	0	(1,113,684.31)	0	0.00
	Sub-total	155	1,796,541,171	173,857,649	138,068,250	12,311,258
TOTAL INDUSTRIAL		**12,295**	**5,084,990,297**	**573,593,821**	**346,374,853**	**35,822,169**
STREET LIGHTS	SL_CODM	41	748,339	95,227.09	25,035	3,261.00
	SL_COM	315	53,366,526	3,981,338.03	3,595,183	264,679.00
	SL_COM_M	6	15,155	1,584.07	2,336	220.00
	SL_DOM	652	7,728,609	2,643,192.43	284,895	100,571.00
	SL_TSF	6	622,560	99,191.52	20,918	3,433.00
	Various*	0	0	(4,450.28)	0	0.00
TOTAL STREET LIGHTS		**1,019**	**62,481,189**	**6,816,082.86**	**3,928,367**	**372,164.00**
INTERSECTION LGHT	TS	1,718	6,506,718	653,868.73	488,228	48,809.00
	TS_F	54	77,304	9,037.84	3,129	385.00
	Various*	0	0	(3,031.64)	0	0.00
TOTAL INTERSECTION LIGHTS		**1,772**	**6,584,022**	**659,874.93**	**491,357**	**49,194.00**
NIGHT LIGHTS	NLGT @	4,924	3,854,989	1,182,421.92	182,267	56,597.00
	Various*	0	0	(192.02)	0	0.00
TOTAL NIGHT LIGHTS		**4,924**	**3,854,989**	**1,182,229.90**	**182,267**	**56,597.00**

	RATE CATEGORY	2013 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR KWH	BILLED THIS YEAR REVENUE	ESTIMATED UNBILLED - DEC. 31, 2013 KWH	ESTIMATED UNBILLED - DEC. 31, 2013 REVENUE
RESIDENTIAL	RPEV_1	32	424,515	46,377.94	54,258	4,703.00
	RSCH	13,617	167,652,768	20,198,848.64	10,842,529	1,250,600.00
	RSCH_E	1,573	17,100,037	1,374,055.41	1,061,160	83,127.00
	RSCH_E_SP	41	393,836	29,418.27	24,871	1,790.00
	RSCH_EL	117	1,516,922	110,776.26	97,256	6,908.00
	RSCH_L	260	3,874,907	416,320.87	224,591	23,528.00
	RSCH_SP	207	2,363,564	280,652.58	160,334	18,540.00
	RSE	0	71,157	12,631.16	0	0.00
	RSE_E	0	(4,292)	(346.90)	0	0.00
	RSE_EL	0	3,845	222.64	0	0.00
	RSEH	71,481	606,355,155	79,677,954.83	38,710,907	4,992,900.00
	RSEH_E	28,686	264,521,490	22,574,651.86	15,798,906	1,332,336.00
	RSEH_E_SP	463	4,307,224	362,092.13	235,608	20,039.00
	RSEH_EL	1,060	11,131,292	790,244.90	638,637	44,535.00
	RSEH_L	551	6,870,845	804,513.06	438,629	51,982.00
	RSEH_SP	653	6,237,554	804,262.01	375,323	48,521.00
	RSMM	90	27,888,000	2,953,808.85	1,554,421	160,490.00
	RTCH	10	201,297	24,596.35	9,787	1,088.00
	RTE5	5	163,959	19,707.12	13,061	1,396.00
	RTEH	100	1,736,012	218,233.01	86,693	9,344.00
	RTEV	0	2,406	227.89	0	0.00
	RTEV4S	4	6,599	538.33	320	25.00
	RTT	7	269,137	24,920.12	0	0.00
	RWCH	1,768	33,118,398	3,946,185.36	2,550,352	287,609.00
	RWCH_E	103	1,748,122	143,952.06	131,587	10,215.00
	RWCH_E_SP	4	81,214	6,932.59	6,631	598.00
	RWCH_EL	13	328,266	30,039.51	30,347	2,640.00
	RWCH_L	38	854,773	94,244.09	52,830	5,464.00
	RWCH_SP	30	537,807	61,904.22	45,404	5,040.00
	RWEH	2,178	38,575,917	5,053,311.88	3,057,672	388,825.00
	RWEH_E	321	6,056,819	571,744.92	475,207	43,622.00
	RWEH_E_SP	9	141,849	11,679.97	13,184	1,123.00
	RWEH_EL	10	252,408	24,338.57	13,117	1,183.00
	RWEH_L	23	542,252	69,392.09	35,193	4,174.00
	RWEH_SP	40	721,734	94,054.10	51,228	6,515.00
	Sub-total	123,493	1,206,047,788	140,832,486.69	76,790,043	8,808,860.00
	RSG	0	435,717	68,875.22	1,915	248.00
	RSG_E	0	40,080	5,286.89	0	0.00
	RSG_EL	0	(2,693)	(94.32)	0	0.00
	RSGH	321,773	2,642,476,023	362,323,984.68	141,309,581	18,884,258.00
	RSGH_E	77,477	613,345,545	55,272,106.01	31,532,204	2,716,665.00
	RSGH_E_SP	1,273	9,563,267	844,985.85	465,252	39,688.00
	RSGH_EL	2,703	25,726,233	1,917,556.88	1,300,967	88,675.00
	RSGH_L	3,648	39,683,675	4,822,610.34	1,984,261	229,803.00
	RSGH_SP	4,376	36,595,628	4,911,808.53	1,929,599	253,134.00
	RTG5	55	860,489	110,935.67	43,813	4,915.00
	RTGH	144	1,965,237	254,774.96	80,066	8,600.00
	RWGH	3,312	46,064,602	6,172,183.94	3,407,778	434,482.00
	RWGH_E	352	4,915,287	473,414.44	352,224	31,964.00
	RWGH_E_SP	5	45,699	3,978.29	4,213	287.00
	RWGH_EL	13	185,759	15,631.40	15,588	1,256.00
	RWGH_L	40	638,935	77,833.53	51,257	5,604.00
	RWGH_SP	59	800,637	102,251.30	56,139	6,760.00
	Subtotal	415,229	3,423,340,120	436,612,791.93	182,534,857	22,706,339.00
	RMHP	0	0	(35.28)	0	0.00
TOTAL RESIDENTIAL		**538,721**	**4,629,387,908**	**577,445,243.34**	**259,324,900**	**31,515,199.00**
TOTAL ALL CLASSES		**607,763**	**10,410,220,833**	**1,247,848,222.37**	**651,988,935**	**73,560,513.00**

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 - 2014
UNAUDITED

	RATE CATEGORY	2014 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR KWH	BILLED THIS YEAR REVENUE	ESTIMATED UNBILLED - DEC. 31, 2014 KWH	ESTIMATED UNBILLED - DEC. 31, 2014 REVENUE
AGRICULTURAL	AOD	5	375,444	57,207	3,200	1,185
	AON	4	60,933	7,065	0	0
	ASD	526	55,686,944	6,510,831	2,340,757	321,779
	ASN	1,871	23,268,127	3,062,068	743,637	104,623
	ASN-BH	1	32,560	3,423	5,217	612
	Various*	0	0	2,488	0	0
TOTAL AGRICULTURAL		**2,407**	**79,424,008**	**9,643,081**	**3,092,811**	**428,199**
COMMERCIAL AND INDUSTRIAL						
SMALL	GEV_FC	1	10,675	1,870	0	0
	GFN	462	61,439	54,703	3,911	3,286
	GSN	18	481,247	64,358	3,373	450
	GSN_T	54,907	772,267,201	108,127,466	43,399,672	6,077,301
	Various*	0	(20,735,000)	(1,071,083)	0	0
TOTAL SMALL		**55,388**	**752,085,562**	**107,177,313**	**43,406,956**	**6,081,037**
LARGE	GSS_S	23	8,483,475	1,057,304	76,562	9,207
	GSS_T	7,796	1,818,279,135	231,743,300	106,583,611	13,504,271
	GUP_S	56	23,251,065	3,011,019	1,816,301	183,794
	GUS_S	427	598,753,884	70,330,014	37,562,175	3,630,651
	Sub-total	8,303	2,448,767,559	306,141,637	146,038,649	17,327,923
	GUP_M	15	23,224,432	2,656,363	2,264,668	198,857
	GUS_M	239	612,885,141	67,813,771	36,776,382	3,391,375
	GUT_M	5	3,117,159	415,487	233,512	29,492
	Sub-total	259	639,226,732	70,885,621	39,274,562	3,619,724
	GDT_99	2	122,805,729	9,672,200	12,155,517	898,557
	GNT_05	1	34,501,608	2,882,639	1,402,725	110,920
	GUP_L	37	397,314,105	39,082,312	22,733,962	2,073,280
	GUS_L	87	648,771,089	70,770,639	43,634,324	4,307,720
	GUT_L	21	665,988,389	61,824,325	54,891,557	4,743,644
	GUT_L19	1	6,429,738	1,110,071	1,364,777	157,243
	Various*	0	0	(399,021)	0	0
	Sub-total	149	1,875,810,658	184,943,165	136,182,862	12,291,364
TOTAL LARGE		**8,710**	**4,963,804,949**	**561,970,424**	**321,496,073**	**33,239,011**
TOTAL COMMERCIAL AND INDUSTRIAL		**64,099**	**5,715,890,511**	**669,147,737**	**364,903,029**	**39,320,048**
STREET LIGHTS	SL_CODM	41	739,130	96,040	19,082	2,522
	SL_COM	312	66,445,792	4,882,824	1,637,090	123,902
	SL_COM_M	8	35,306	3,367	4,555	410
	SL_DOM	649	7,567,159	2,642,790	235,585	85,720
	SL_TSF	6	622,560	102,166	15,910	2,660
TOTAL STREET LIGHTS		**1,017**	**75,409,947**	**7,727,187**	**1,912,222**	**215,214**
INTERSECTION LGHT	TS	1,735	6,332,972	684,614	440,588	47,782
	TS_F	53	76,429	10,154	2,939	423
TOTAL INTERSECTION LIGHTS		**1,788**	**6,409,401**	**694,768**	**443,527**	**48,205**
NIGHT LIGHTS	NLGT @	4,806	3,792,542	1,171,031	171,723	53,823
	Various*	0	0	(56)	0	0
TOTAL NIGHT LIGHTS		**4,806**	**3,792,542**	**1,170,975**	**171,723**	**53,823**

	RATE CATEGORY	2014 MONTHLY AVERAGE OF CUSTOMERS	BILLED THIS YEAR KWH	BILLED THIS YEAR REVENUE	ESTIMATED UNBILLED - DEC. 31, 2014 KWH	ESTIMATED UNBILLED - DEC. 31, 2014 REVENUE
RESIDENTIAL	RPEV_1	184	2,594,327	297,187	217,539	24,060
	RSCH	13,014	151,124,253	18,704,808	8,299,371	949,480
	RSCH_E	1,371	14,211,059	1,162,272	752,785	56,501
	RSCH_E_SP	36	326,429	24,783	17,247	1,196
	RSCH_EL	100	1,240,911	88,793	67,991	4,544
	RSCH_L	234	3,281,955	358,511	169,885	16,973
	RSCH_SP	223	2,419,237	295,211	139,150	15,926
	RSEH	74,769	620,248,112	83,990,775	33,232,070	4,334,546
	RSEH_E	26,588	232,229,529	19,947,828	11,612,895	937,200
	RSEH_E_SP	359	3,311,375	285,831	165,550	13,769
	RSEH_EL	1,051	10,102,500	699,325	524,535	33,054
	RSEH_L	638	7,444,701	876,983	409,942	46,640
	RSEH_SP	618	5,701,333	749,036	323,471	41,548
	RSMM	92	29,115,255	3,267,193	1,541,833	172,940
	RTCH	9	166,062	20,896	7,973	913
	RTE5	5	168,096	20,511	11,561	1,274
	RTEH	99	1,645,402	211,969	69,914	7,755
	RTEV4S	4	5,458	451	388	30
	RWCH	1,693	30,338,624	3,702,272	2,098,127	234,986
	RWCH_E	91	1,534,628	128,905	105,032	8,565
	RWCH_E_SP	4	71,762	5,909	4,654	312
	RWCH_EL	11	275,460	26,028	22,127	1,910
	RWCH_L	31	609,877	67,524	41,867	4,178
	RWCH_SP	31	509,394	59,395	37,775	4,188
	RWEH	2,309	39,727,874	5,255,895	2,845,803	354,881
	RWEH_E	290	5,517,259	534,283	368,203	33,459
	RWEH_E_SP	6	118,019	11,086	10,086	953
	RWEH_EL	11	205,354	17,797	9,117	812
	RWEH_L	24	509,894	66,101	35,577	4,156
	RWEH_SP	38	597,412	76,240	45,299	5,572
	Sub-total	123,932	1,165,351,551	140,953,799	63,187,767	7,312,321
	RSG	1	8,193	1,091	0	0
	RSGH	332,358	2,780,343,017	392,546,865	134,768,740	18,522,861
	RSGH_E	70,617	553,752,199	50,490,597	25,387,307	2,152,506
	RSGH_E_SP	1,123	8,381,479	746,479	382,959	32,587
	RSGH_EL	2,613	24,306,935	1,840,917	1,157,719	74,268
	RSGH_L	3,751	40,681,710	5,050,662	1,898,977	222,527
	RSGH_SP	4,492	37,217,703	5,117,479	1,953,308	262,656
	RTG5	41	715,131	93,586	42,108	4,859
	RTGH	156	2,115,971	279,137	80,669	8,908
	RWGH	3,401	46,970,917	6,437,474	3,240,504	417,722
	RWGH_E	327	4,417,882	424,226	272,311	23,410
	RWGH_E_SP	6	62,302	5,200	6,275	480
	RWGH_EL	14	219,409	19,783	12,065	875
	RWGH_L	45	711,056	87,490	54,570	5,907
	RWGH_SP	55	750,946	97,427	47,126	5,726
	Various*	0	0	(2,193,546)	0	0
	Subtotal	418,998	3,500,654,850	461,044,868	169,304,638	21,735,292
TOTAL RESIDENTIAL		**542,930**	**4,666,006,401**	**601,998,667**	**232,492,405**	**29,047,613**
TOTAL ALL CLASSES		**612,241**	**10,546,932,810**	**1,290,382,416**	**603,015,717**	**69,113,102**

Customer count per Monthly General Ledger Balancing Report totals (SMUD properties excluded).
@ Night Light customers not included in customer count.
* Manual adjustments to billings, unreconciled differences within SAP, and other adjustments.