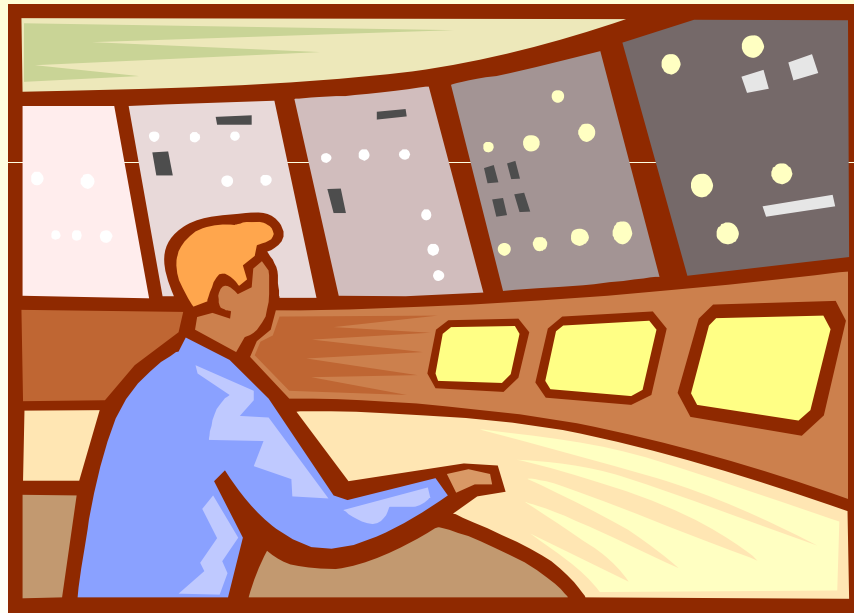


Energy Supply Overview

USEA Presentation 7/31/2006



Energy Trading and Contracts

Diversification of Supply

SMUD Policy mandates:

- District will maintain a diverse portfolio of generation, transmission, natural gas related assets and contracts to reasonably mitigate risk, market volatility and uncertainty.
- Contracts risks are mitigated through diversified terms and conditions, contract periods and duration, delivery points, counterparties and product types.

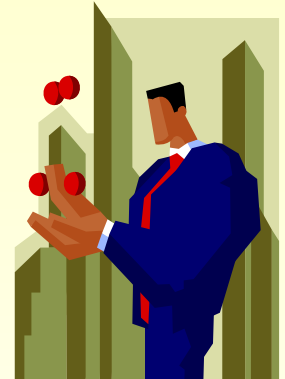
General Types of Risk

- Market Risk
 - Price
 - Weather
 - Credit/counter-party
 - Delivery
- Business Environment
 - Regulatory
 - Extreme event
- Internal Operations Risk
 - Human and information system errors/misconduct

SMUD Priorities in Implementing Risk Management Policy

In order of importance:

1. Ensure customer load is served
2. Minimize purchase costs within tolerance limits
3. Optimize District resources to create additional value for customers



Organizational Structure and Responsibilities

- Executive Oversight Committees
 - Risk Oversight Committee (ROC)
 - Market Monitoring Committee (MMC)
- Operational Offices
 - Front Office (Energy Trading & Contracts)
 - Middle Office (Energy Risk Mgmt., Wholesale Credit Risk Mgmt.)
 - Back Office (Energy Settlements)

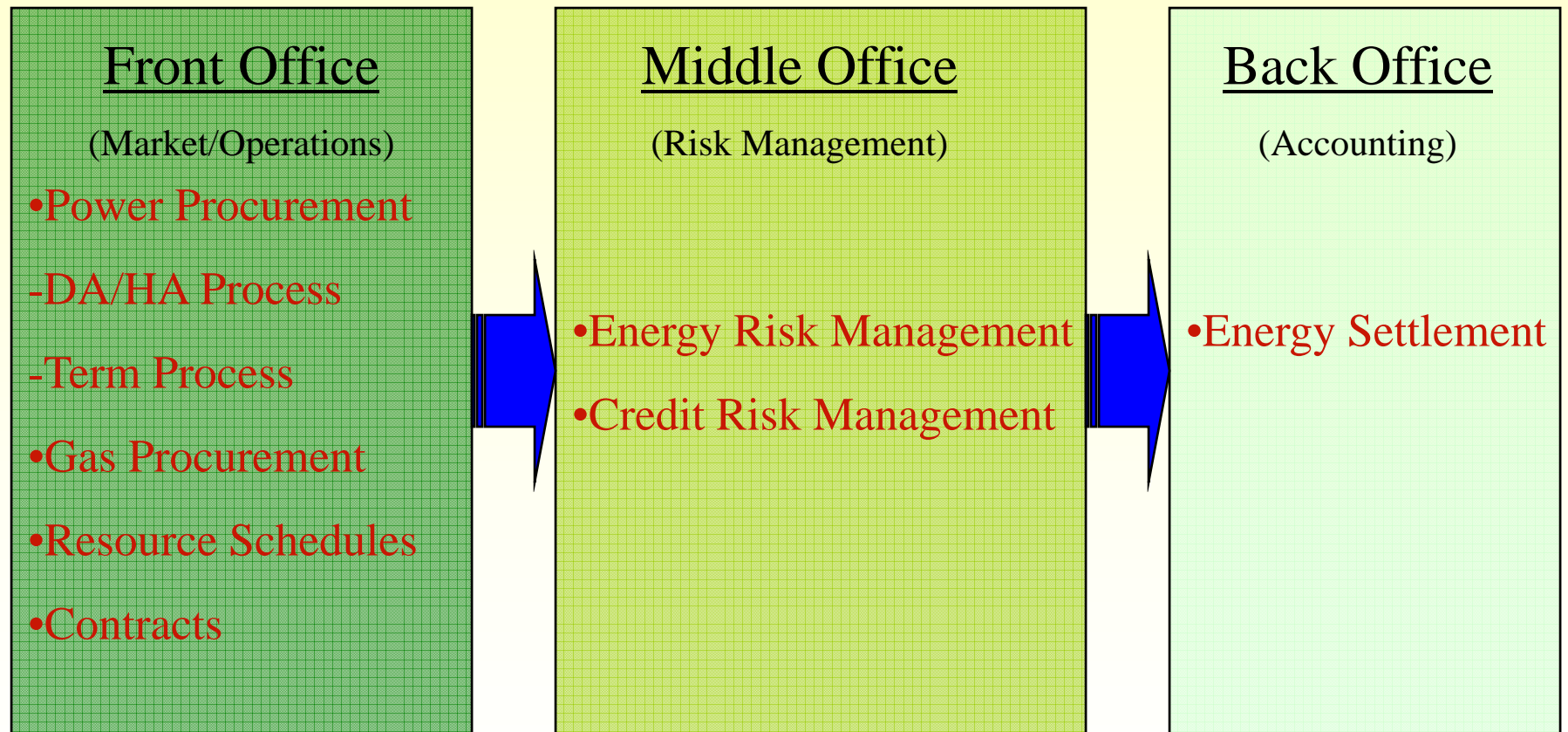
Risk Oversight Committee

- Approves wholesale energy and credit risk tolerance guidelines,
- oversees risk management processes and
- ensures adequate internal controls are in place, such as delegations of authority.
- Members: CFO, AGM Administrative Services, AGM of Energy Supply and General Counsel
- Non-Voting Member – Manager of Audit Services

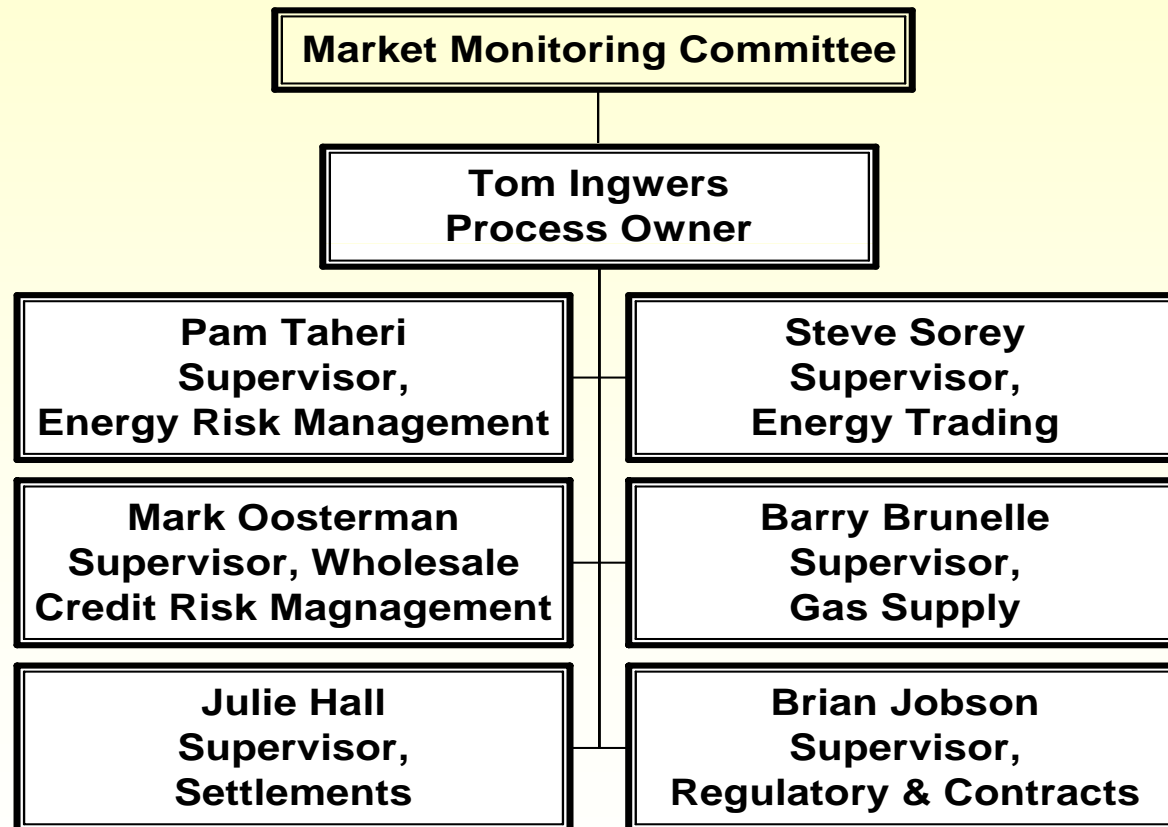
Market Monitoring Committee

- Monitor risk exposure and energy expenditures relative to budget.
- Develop specific trading and risk mitigation strategies and authorize major trading directives and resource utilization strategies.
- Review high impact issues and develop solutions.
- Meets weekly
- Members: AGM Energy Supply, Director of ET&C, CFO, General Counsel, Manager of SOAR, Controller; and Front, Middle and Back Office Supervisors.

Functional Structure – Commodity Procurement



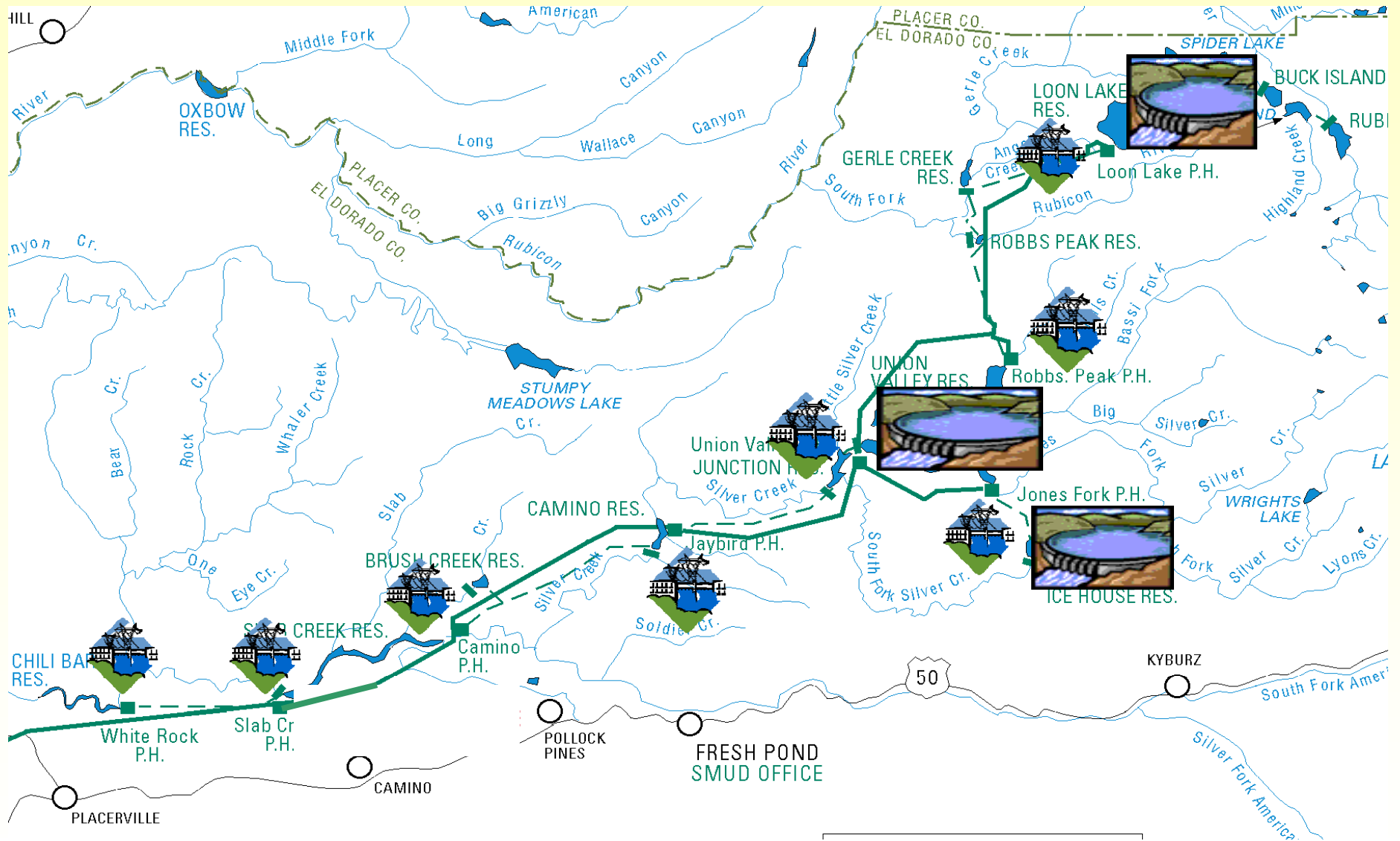
Commodity Procurement and Sales Process Management



SMUD 2006 Energy Supply Portfolio, 11,204,000 MWh

- 50% owned thermal generation
- 15% owned hydro generation
- 13% owned and contract renewable green
- 9% long-term WAPA hydro contract
- 13% short and medium term purchase contracts
- Budget for power and gas contract purchases, \$489 million

Control Area Operation – Impacts On The UARP



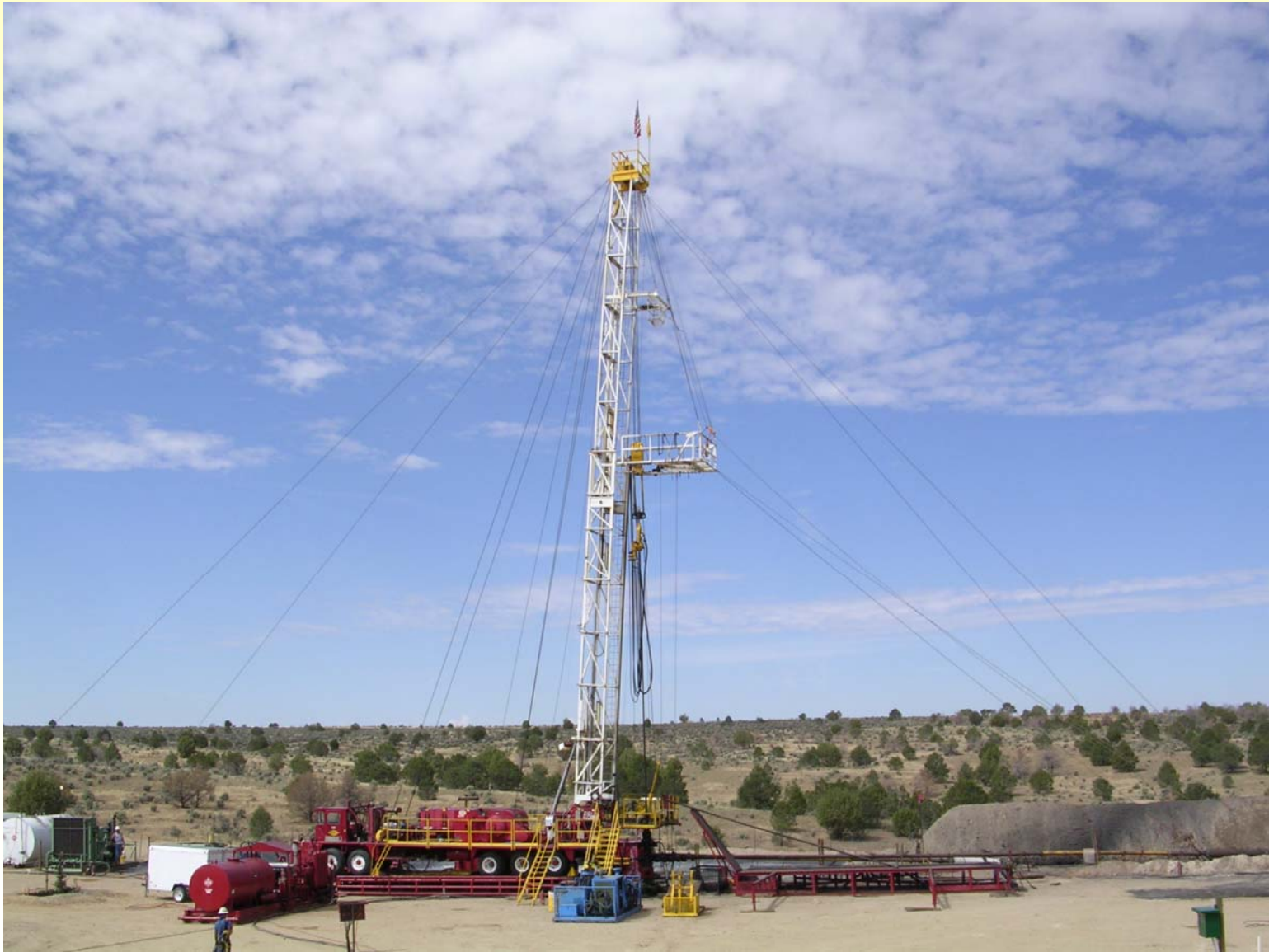
Control Area - UARP



Rosa Unit Highlights

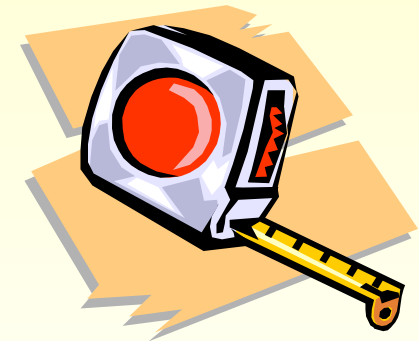
- SMUD purchased long-life gas reserves in March 2003 for \$135 million
- Located in San Juan Basin
- Coalbed Methane and Conventional gas
- Active Drilling Program underway
- Acquisition cost less than \$1/MMBtu - proven reserve, delivered CA border cost about \$3
- Produces about 20,000 dth/d, about 20% of fuel-gas needs
- Transported to CA via TW Pipeline



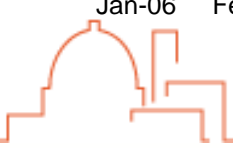
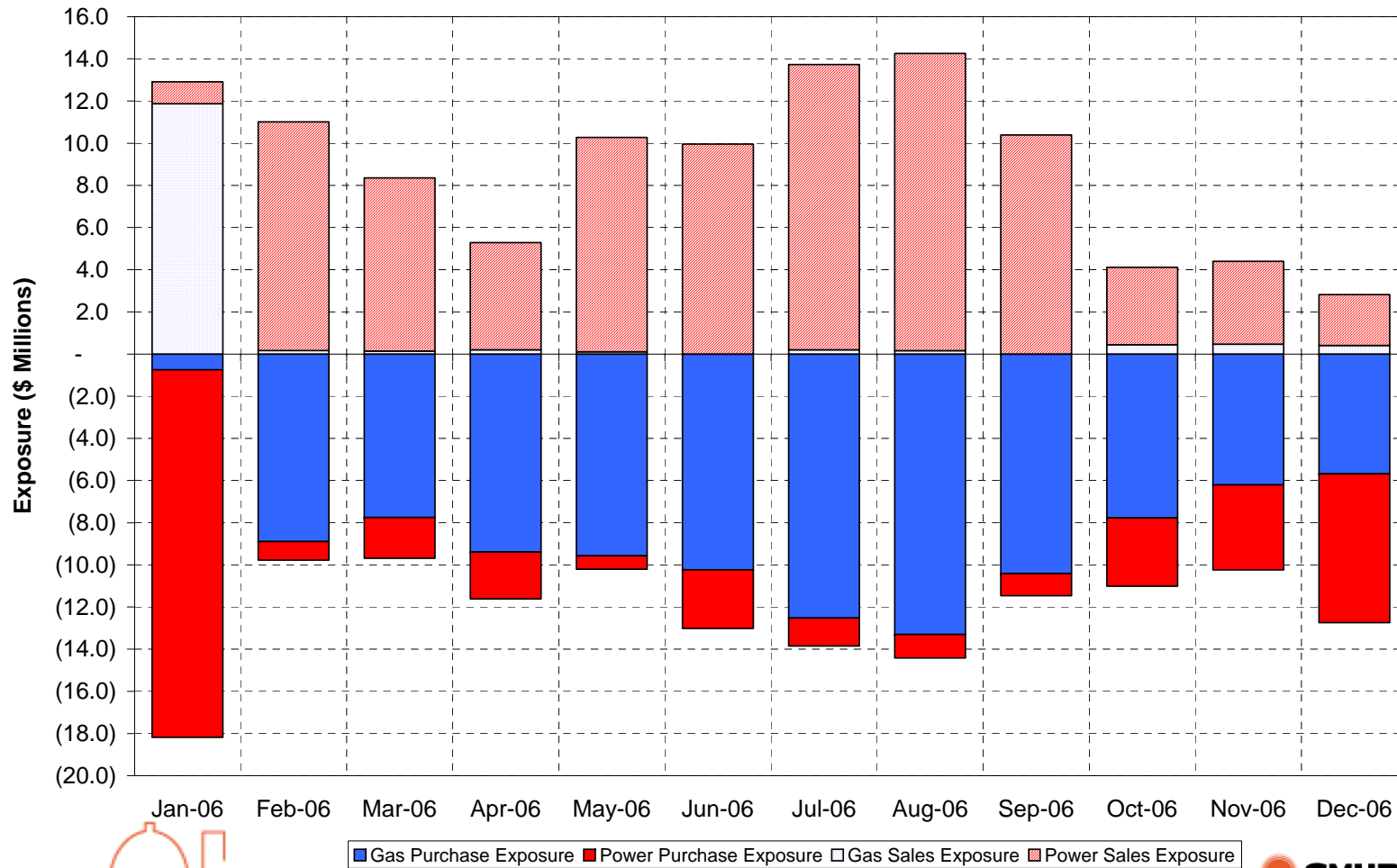


Portfolio Risk Quantification

- Primary software tool is POMAX Analyzer
- Given key input assumptions:
 - forecasted energy prices,
 - retail load,
 - resource availability
 - weather and other variables,
- Output includes:
 - SMUD's net wholesale energy costs,
 - position and financial exposure.
- Sensitivity analysis/stress testing by varying key input assumptions.

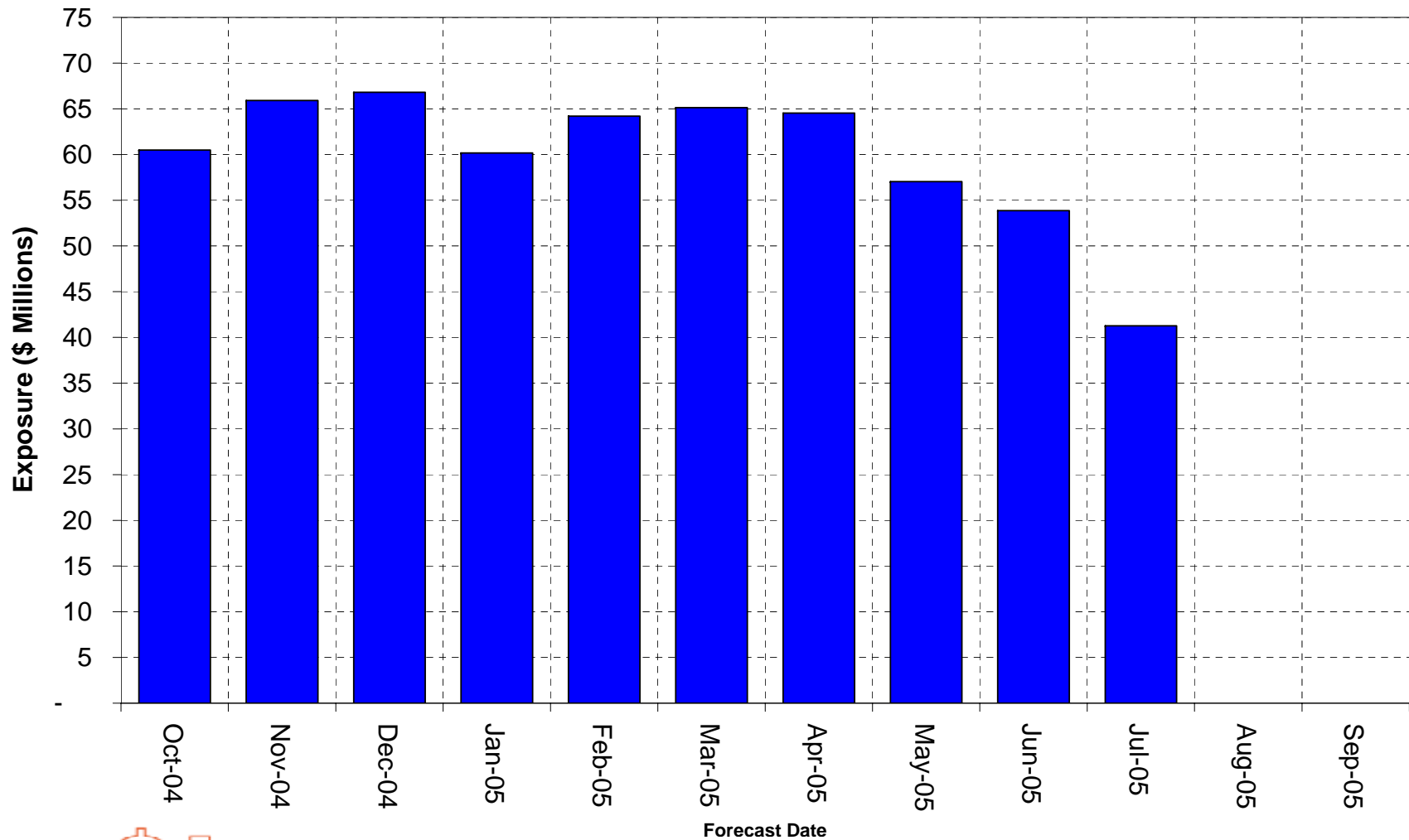


Forecast of Monthly Exposure Jan. 2006 – Dec. 2006

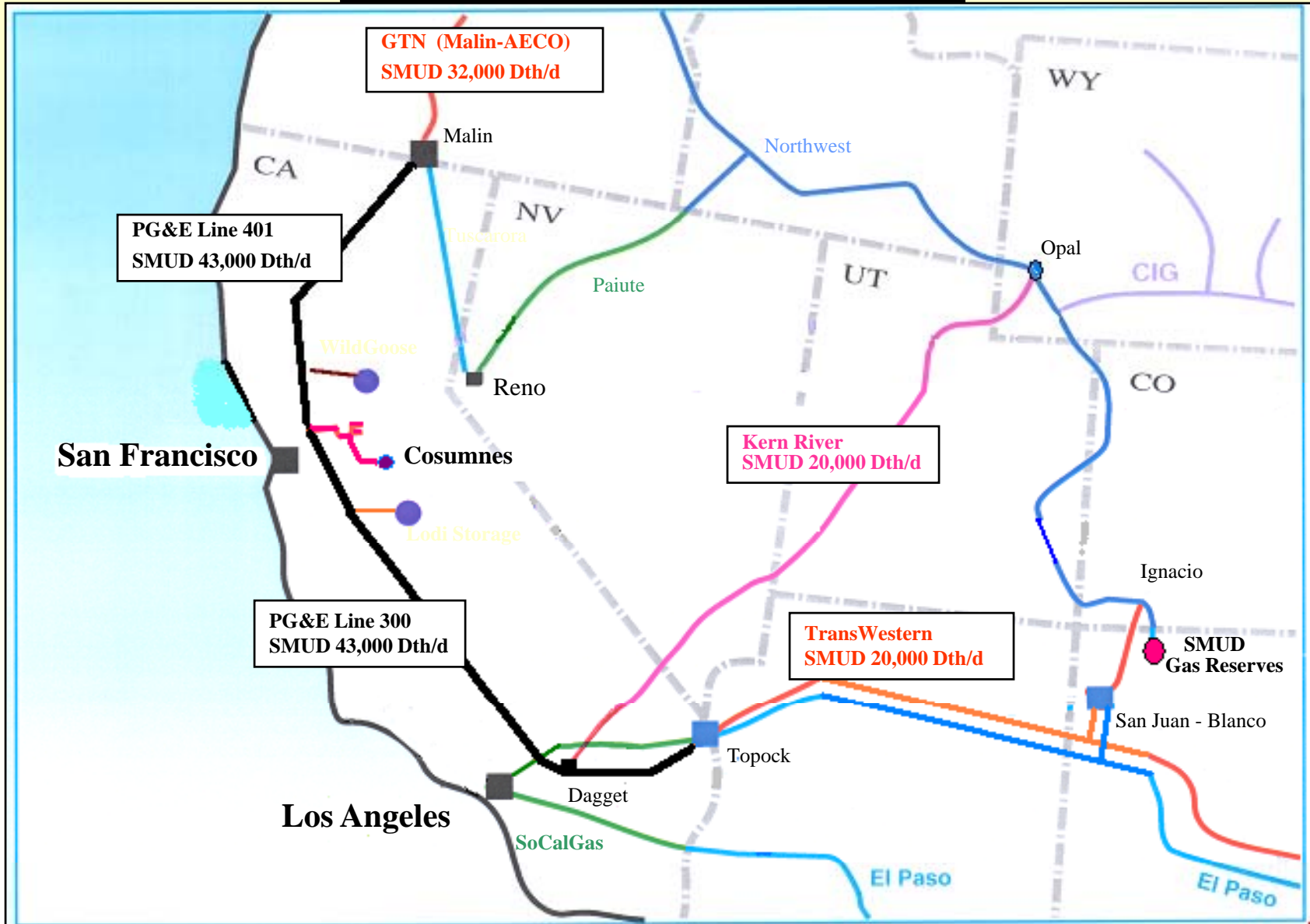


■ Gas Purchase Exposure ■ Power Purchase Exposure □ Gas Sales Exposure ■ Power Sales Exposure

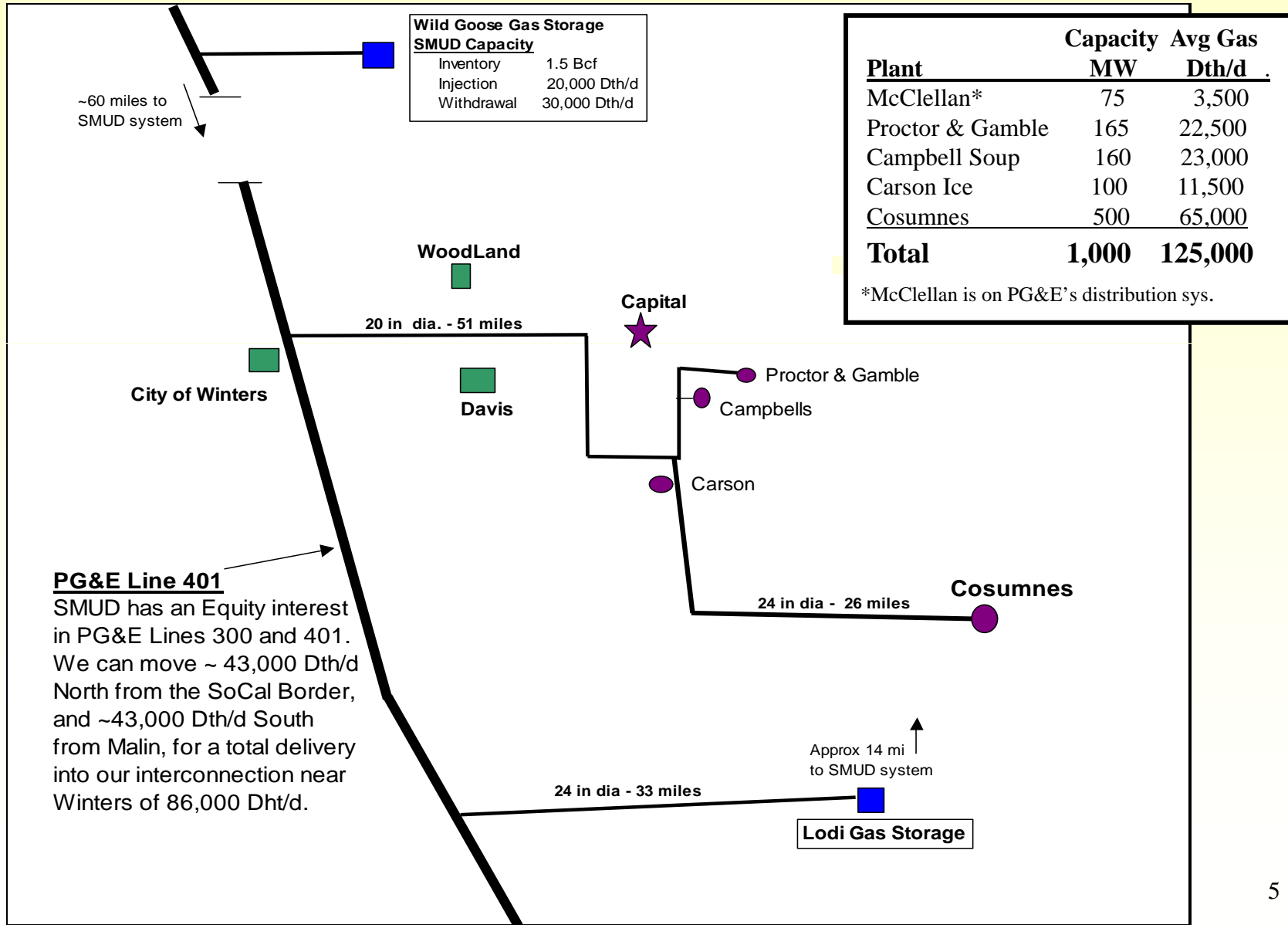
Comparison of 2006 Exposure Forecasts



SMUD Gas Pipeline Capacity



SMUD Local Gas System



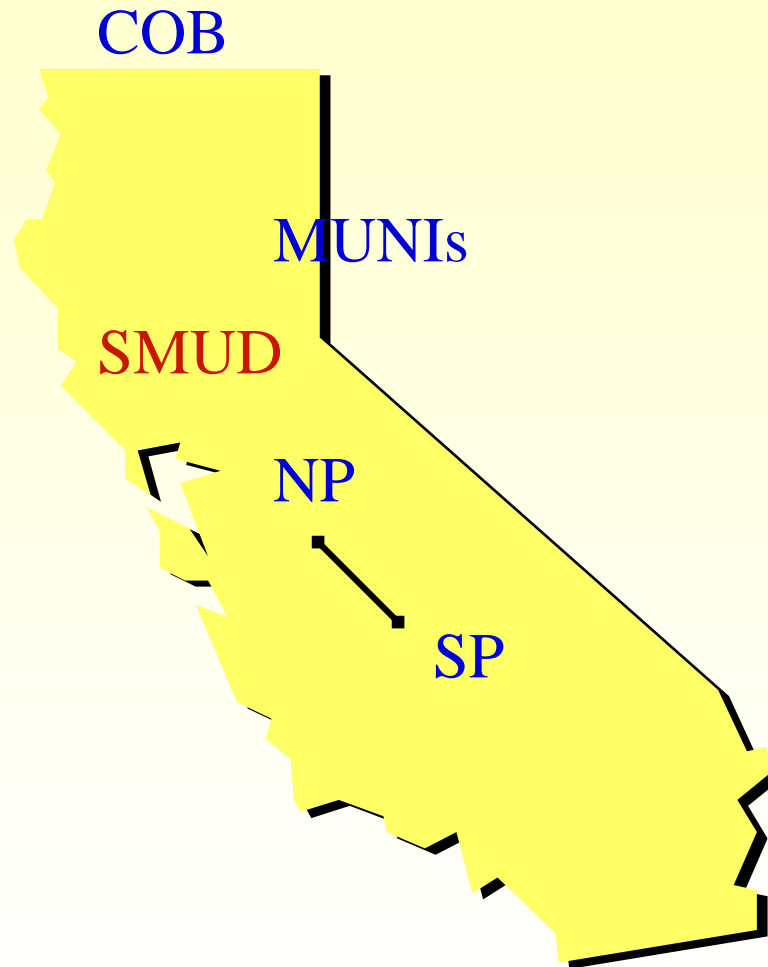
Power Market – Trading Hubs

Types:

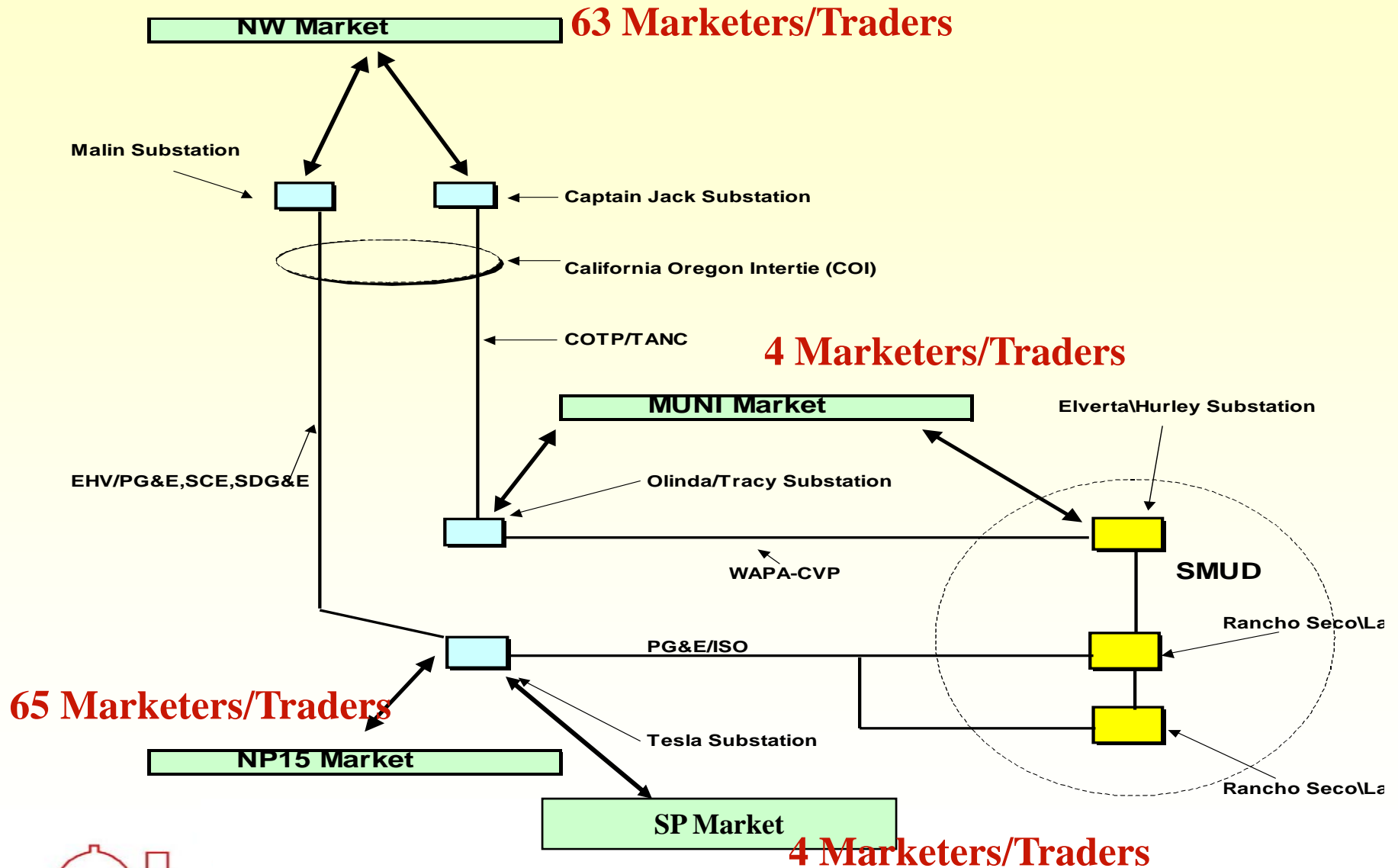
- Energy
- Capacity (options)
- Transmission
- Financial Products

Communication Links:

- Web, ICE
- Phone
- Broker Box
- RFPs

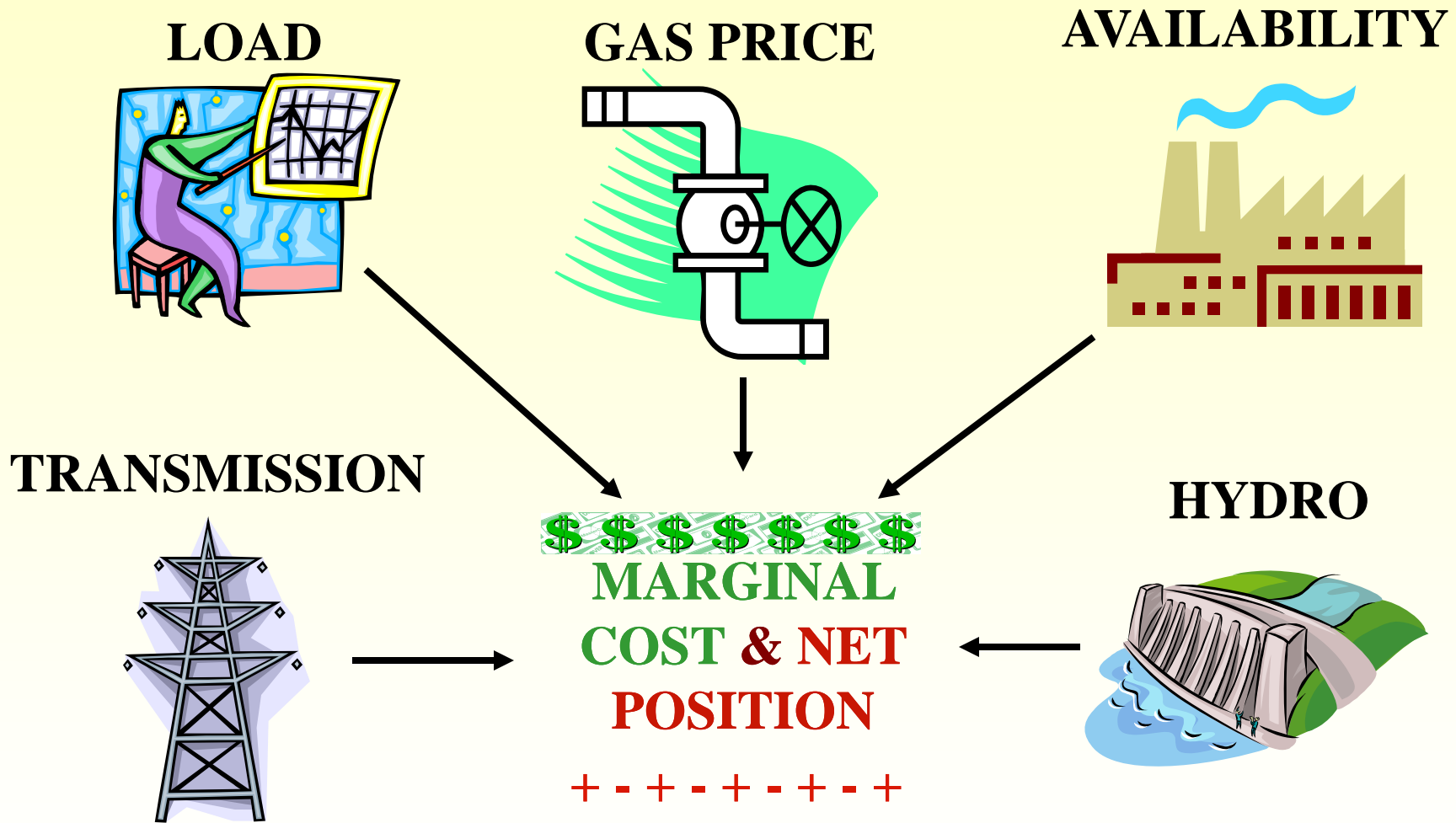


Power Scheduling –POR/POD

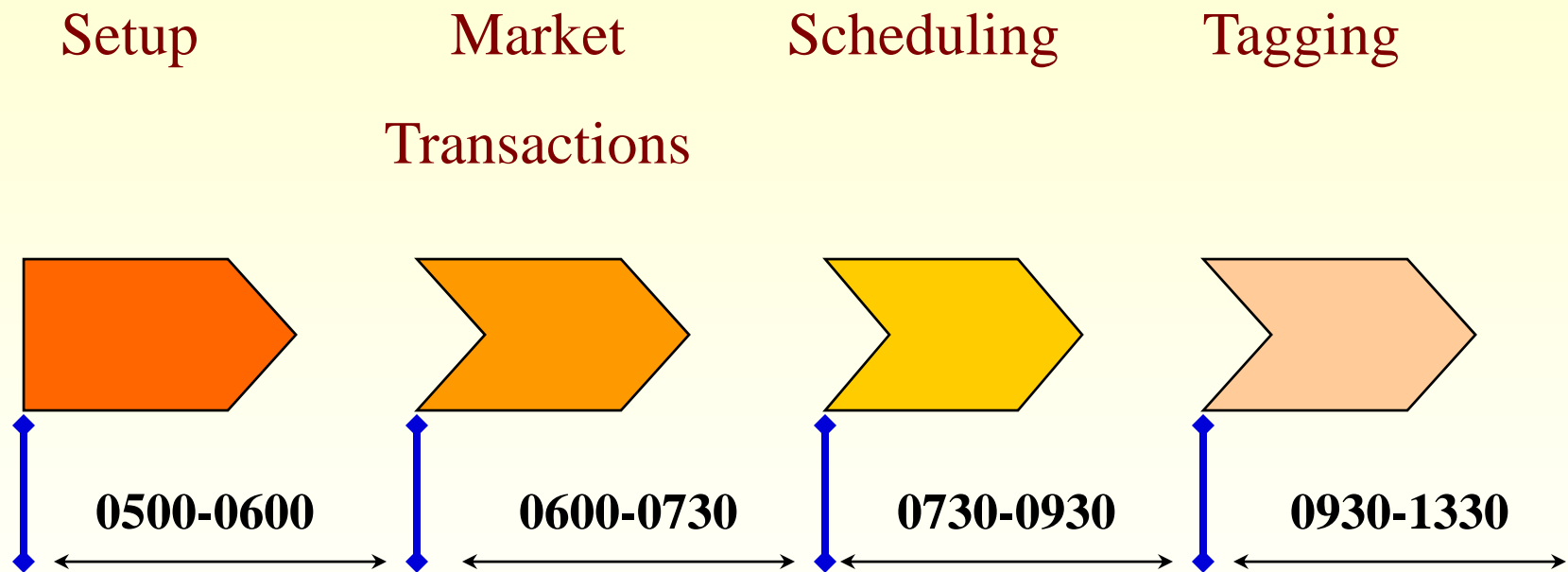


Energy Procurement Process

Day Ahead Resource Setup – Factors



Day Ahead Process – Timeline



ET&C 2006 Challenges

- Procuring gas at reasonable prices for the period 2008 and beyond, without risking a rate increase or hurting our competitive position
- Managing 2006 commodity budget, \$489 million
- Procuring sufficient summer peaking resources at reasonable cost
- Protecting SMUD interests from regulatory erosion, i.e.: CAISO MRTU, FERC, Energy Bill
- Meeting new peak demand in 2006 and planning resource additions to meet future peaks