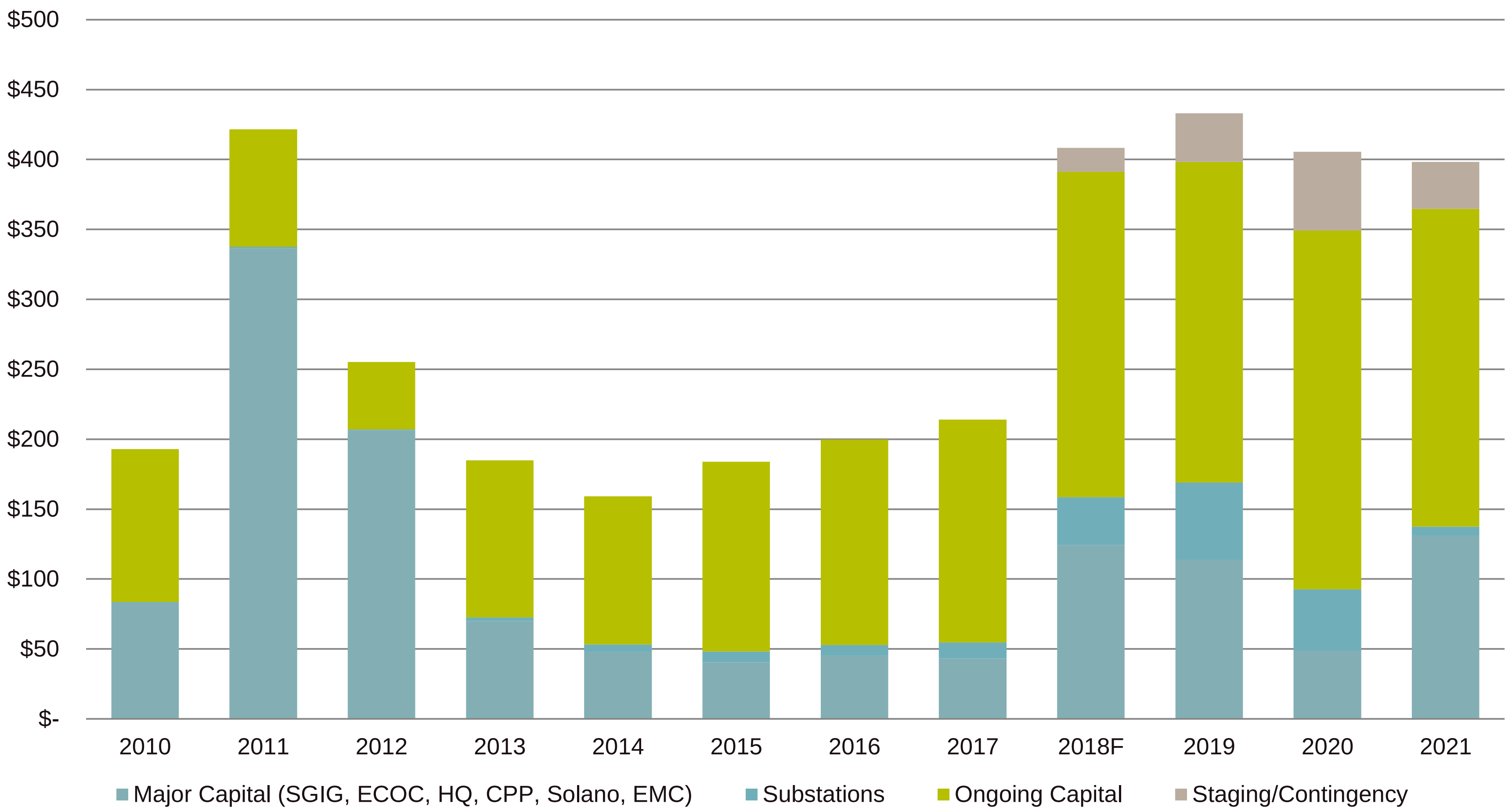
Exhibit to Agenda Item #2

Board Finance & Audit Committee Meeting and Special SMUD Board of Directors Meeting

Tuesday, September 4, scheduled to begin at 5:30 p.m.

Customer Service Center, Rubicon Room

Forecasted Capital Spending



Capital Financing Options

- There are options for SMUD to choose from when financing capital expenditures:
  - Fixed Rate debt
    - Interest costs known when bonds priced
    - Yield tied to bond maturity (typically 10-30 yrs.)
  - Variable Rate or Short-term debt
    - Interest costs float with changes to market interest rates
    - Yield tied to shorter term rates and indexes (SIFMA,MMD)
    - Introduces an element of risk since interest costs are unknown at pricing
    - Risk can be hedged with financial instruments that “fix” the rate synthetically

Short-term Financing

- What is "short-term" debt:
  - Variable rate debt with rate resets that are daily, weekly, or tied to a short-term index
  - Commercial paper that matures and is resold depending on maturity of up to 270 days
- For what purpose is short-term debt issued?
  - Permanent financing
    - Provide long-term project funding utilizing short-term interest rates
  - Construction financing
    - Provide interim short-term financing for capital projects (i.e. commercial paper)

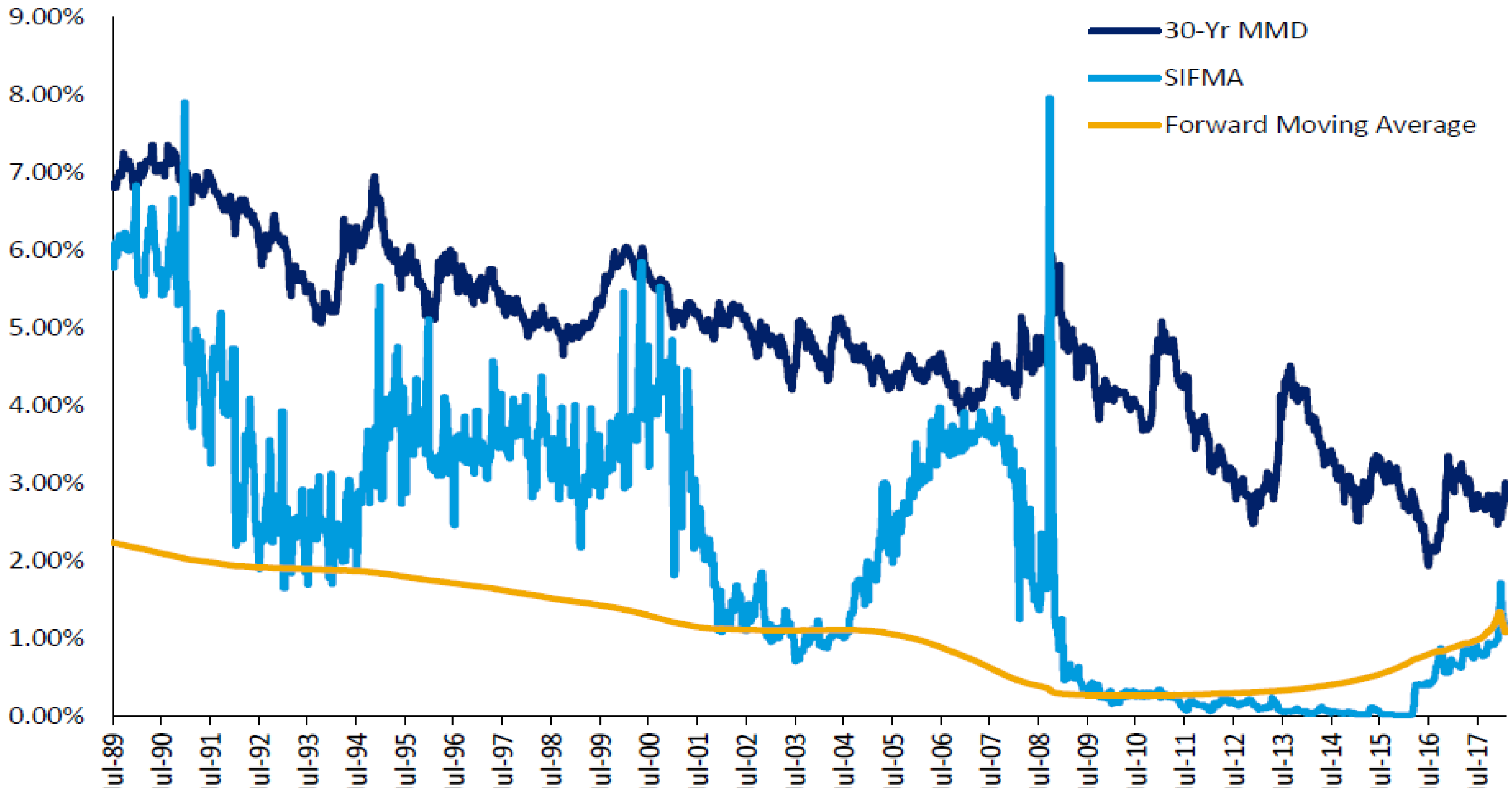
Why issue Variable Rate Bonds?

Cost savings and flexibility are key considerations:

- Achieve interest rate savings
  - Historically produces lowest interest cost over time
  - Avoid locking-in long-term rates in unfavorable market conditions
  - “Diversified portfolio” may have long-term advantages
- Asset-liability management
  - Align or variable revenues (interest earnings) with variable liabilities
  - Natural hedge against investment risk
  - May hedge certain cyclical electric sales revenue characteristics
- Achieve “no-cost” call options
  - Flexibility to call bonds with little notice and no call premium
  - Take advantage of lower fixed interest rate environment in the future

Historically Lower Funding Costs

Long-Term Fixed Rate (30-yr MMD) vs. SIFMA, Since January 1982

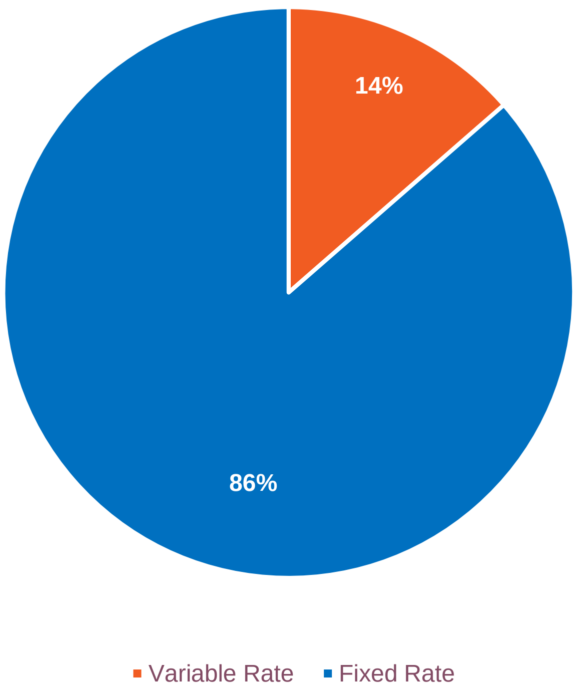


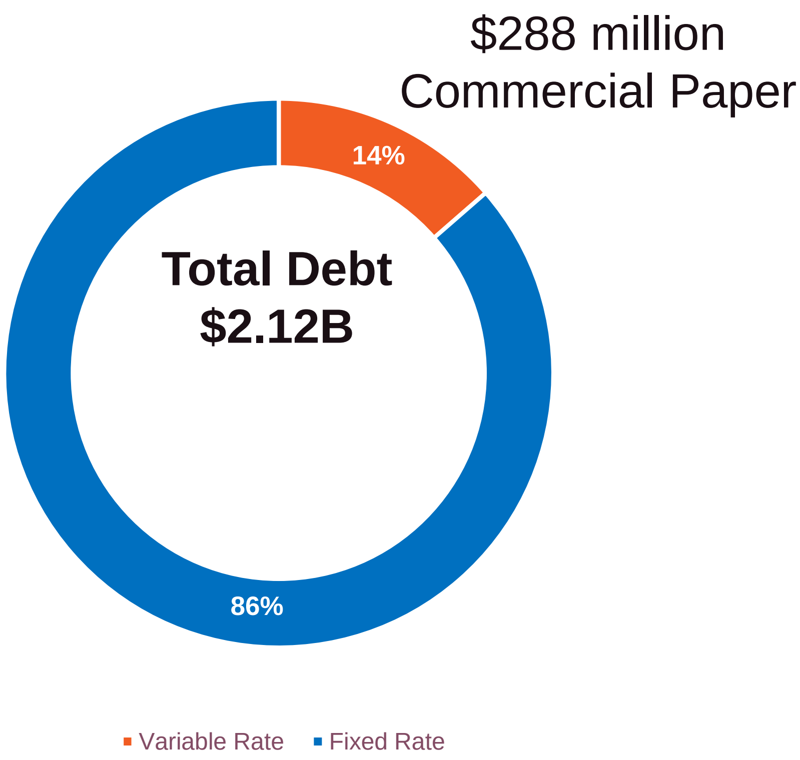
Source: Thomson Reuters as of 2/2/18.

Ratings Agency Considerations for Variable Rate Debt

- Variable rate debt in issuer's overall debt portfolio provides diversification – positive
- Appropriate choice for municipalities rated "A" or higher with stronger financial metrics
- Rating agencies are typically comfortable with up to 25% variable in the debt portfolio
  - Debt must be structured appropriately and issuers have sufficient financial flexibility to balance liquidity and interest rate risk

Variable Rate Debt represents 14% of SMUD's Debt Outstanding





Questions?