

# Exhibit to Agenda Item #7

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

Tuesday, April 16, 2019 scheduled to begin at 5:30 p.m.

Customer Service Center, Rubicon Room

# Managing Risks to Reliability and Security

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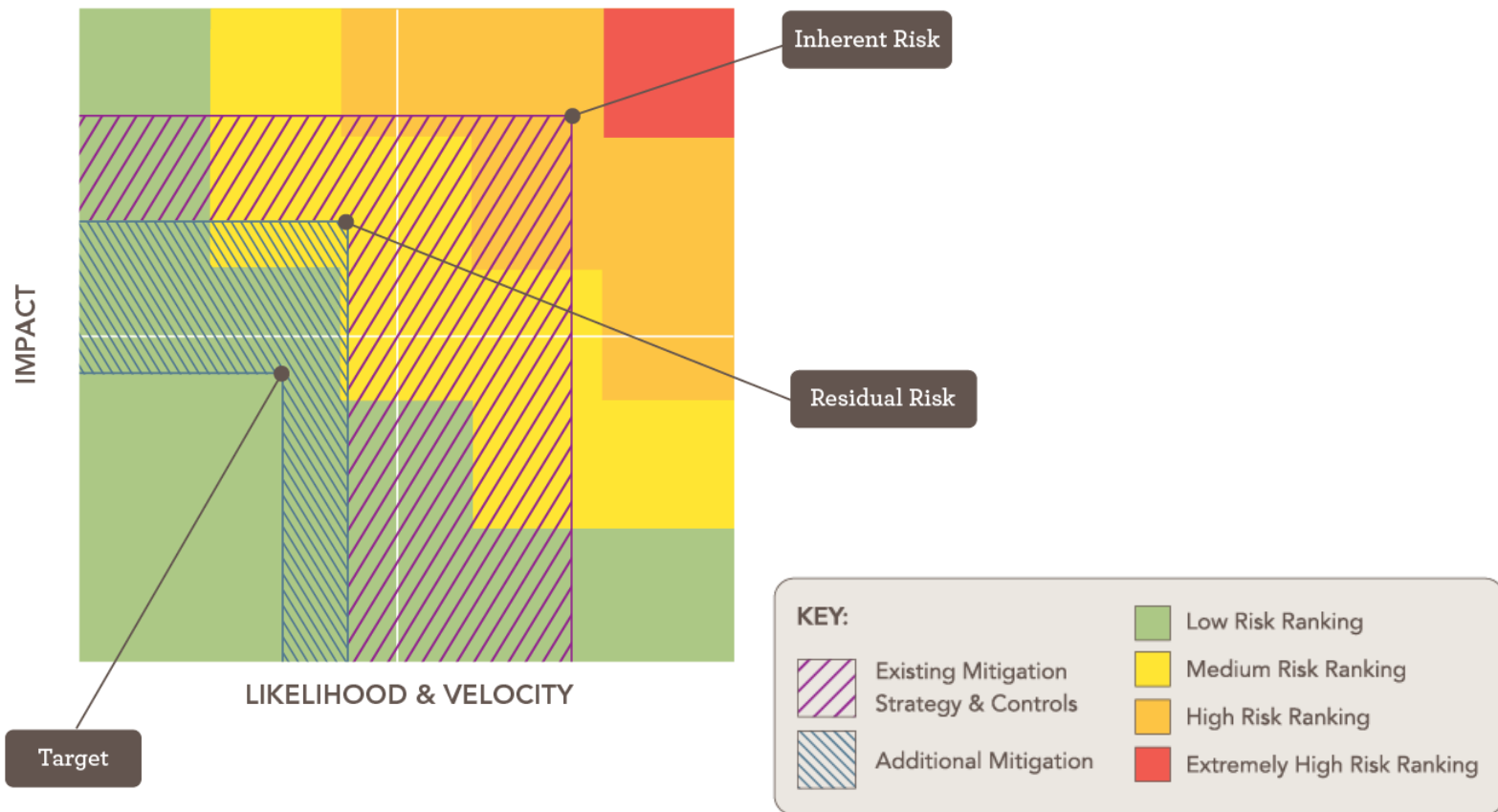
- SMUD oversight programs
  - Risk-based priorities
  - Compliance (historical focus...evidence based)
  - Controls (future focus...reasonable assurance)
- Reliability and security bulk electric system objectives
  - Operations & Planning
  - Critical Infrastructure Protection
- Regulatory oversight agencies
  - Federal Energy Regulatory Commission (FERC)
  - North American Electric Reliability Corporation (NERC)
  - Western Electricity Coordinating Council (WECC)

# Internal Controls Program Benefits

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- Improves controls for reliability and security
- Focuses on right-sizing controls at right place
- Provides reasonable assurance of achieving objectives
- Aligns with operational excellence and continuous improvement
- Validates and leverages effective controls
- Reduces burden of regulatory oversight

# Right-sizing Controls



# Internal Controls Evaluation Program

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- Initially focused on higher risk operational and security activities mandated by NERC standards
- Program aligned with NERC and WECC guidance
- Refined by regulatory and industry input
- Consistent with established internal controls frameworks
- Leverages existing internal resources
  - Enterprise Risk Oversight Committee
  - Enterprise risk management
  - 3 Lines of Defense working group

# Controls Evaluation Criteria

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- Five criteria focused on control design and implementation
- Expectations established for each criteria

Criteria	Focus	Description
#1	Design	Control meets stated objective
#2	Design	Control design is complete
#3	Implementation	Control operates as designed
#4	Implementation	Control is consistently implemented
#5	Implementation	Control is understood by users and affected stakeholders

# Next Steps

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- Continue implementation and capture benefits realized
- Participate in WECC controls evaluation process
- Share lessons learned internally and with industry
- Seek opportunities for application in other risk areas

# Questions

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