

# Exhibit to Agenda Item #1

Board Energy Resources & Customer Services Committee Meeting and Special SMUD  
Board of Directors Meeting

Wednesday, February 20, 2019, scheduled to begin at 5:30 p.m.

Customer Service Center, Rubicon Room

# Requested Action

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- Adopt an amendment to SMUD's Energy Risk Management and Energy Trading Standards to allow for transactions with counterparties having less than investment grade credit ratings under specified conditions.

# Current Standard

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- SMUD has adopted risk management and trading standards that limit our risk exposure to financially challenged counterparties
  - *Unless adequate credit support is provided, transactions are prohibited with any counter-party that are: (i) longer than one year in duration, with a credit rating less than investment grade; or (ii) one year or less in duration, with a credit rating less than the Standard and Poor's equivalent of BB.....*

# Need for Exception – PG&E

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- PG&E bond ratings placed below investment grade on January 7 (“B” rating) and filed for bankruptcy on January 29.
  - *SMUD had placed PG&E on “buy only” status last summer and suspended all trading with them on January 7.*
- CCA’s and Direct Access (DA) suppliers need Resource Adequacy (RA) capacity for grid reliability requirements
  - *Load departures have left PG&E with surplus resources*
  - *As the largest RA capacity supplier in Northern California, CCA’s and DA suppliers can’t avoid contracting with PG&E to meet reliability requirements and PG&E is the largest supplier to VCE*
  - *SMUD can’t fulfill its procurement obligation to VCE and may also have difficulty procuring before PG&E exits bankruptcy*

# Proposed Exception

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... the General Manager is authorized to grant individual exceptions with a counterparty having a credit rating less than investment grade and no credit support if the following conditions exist:

1. The counter party is a key supplier of the particular energy product.
2. The energy product is necessary for meeting regulatory and/or reliability requirements.

# Supporting Rationale

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- No additional risk to SMUD to fulfill its obligation to VCE
  - *For RA capacity purchases only (no financial risk) and estimated at approx. \$11 million for 2020-2021*
- PG&E obtained \$5.5 billion in Debtor-In-Possession (DIP) financing
  - *Creditors approve DIP budget (incl. revenue sources) throughout bankruptcy minimizing likelihood of failure to perform*
- CAISO grid reliability highly dependent on PG&E capacity making non-performance unlikely

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