Exhibit to Agenda Item # 7

Provide the Board with a briefing on COVID-19 operational and financial impacts to customers, employees, and operations, and an update on actions taken.

Board of Directors Meeting
Thursday, April 16, 2020, scheduled to begin at 5:30 p.m.
Agenda

1. Early monitoring and preparation for COVID-19
2. Overview of COVID-19 impacts
3. Three pillars of response effort
   - Employees
   - Operations
   - Customers
4. Financial impacts
   - Assumptions & modeling
   - Decisions to date
5. Next steps
Early monitoring and preparation for COVID-19: SMUD

SMUD, like other utilities, is well prepared for unplanned events that impact our operations. Specifically for COVID-19:

• Safety is always SMUD’s priority. Rigorous risk mitigation measures in place for employees in all aspects of our operations.

• Ongoing integrated and robust planning for wide range of major events
  - Business Continuity
  - Emergency Management
  - Disaster Recovery
  - Crisis Communications

• Regular scenario exercises: internally and with external jurisdictions and partners

• Strong financial management

• Cross-department COVID-19 team began meeting in January for monitoring and response preparedness

• Engaged senior leadership team early to ensure plans in place to support operations, employees and our customers

• Social distancing plans developed and implemented early
We’ve all seen the headlines

Coronavirus pandemic alters life as we know it
By Amy Woodyatt, Julia Hollingsworth, Ben Westcott, Adam Renton, Meg Wagner and Mike Hayes, CNN
Updated 10:13 a.m. ET, March 30, 2020

A healthcare worker tends to a driver at a drive-through coronavirus testing site at the Westminster Mall. (Allen J. Schaben / Los Angeles Times)

‘A silent explosion’: Coronavirus deaths in U.S. climb past 16,000
COVID-19 deaths in the U.S. surpass 16,000. In New York, new hospitalizations slow, affirming signs that stay-at-home orders are slowing coronavirus spread.

‘We Have Lost It All’: The Shock Felt by Millions of Unemployed Americans

We’ve all seen the headlines
COVID-19 impacts

Business Insider

Electricity use in the US has plummeted more over the past 3 weeks than it did during the entire 2008 recession — and economists say that's a more timely picture of this downturn's true impact

Reported impacts

- Across Europe, electricity sales down 4-16%
- New York reporting electricity sales decrease
- LPPC CEOs using 5-15% drop in load as “most likely” case
- SMUD – current forecast reflects experience equal to low-to-mid range of both Europe and other large public power – though very limited data
- SMUD – anticipating 3% system load reduction on weekends and 7% reduction on weekdays.

The New York Times

Another Way to See the Recession: Power Usage Is Way Down

By Quoctrung Bui and Justin Wolfers April 8, 2020

When the economy is moving too fast for the usual indicators, the electricity grid offers a valuable clue.
COVID-19 impacts are profound

COVID-19 is hurting our customers

• Commercial customers are shutting down and we don’t know for how long.
• Small and medium business customers are disproportionately impacted.
• Customers’ ability to pay their SMUD bills will be impacted.

Weekly unemployment claims

• US: 6.6m week ending April 4. 16.8m in three weeks
• CA: 1.06m week ending April 8. 2.17m in three weeks

University of the Pacific unemployment study estimates

• CA unemployment: 18.8% by May
• Sacramento unemployment: 18.5% by May
COVID-19 Impacts vs. a Typical Recession

• COVID-19 is different from previous recessions
• Sharp immediate decline with no warning signals
• Initial forecast was for a quick recovery; now less certain and many varied outlooks. Latest forecasts show economic conditions worsening and impact into 2022.

• Sacramento Unemployment: Great Recession 12.9%; May 2020 Forecast 18.5%
• California Unemployment: Forecast 8.5% in early 2022.
• There is uncertainty about how long and how large additional impacts may be:
  - Length of shelter-in-place orders
  - Ability for businesses to recover once shelter order rescinded
  - Overall economy: recession anticipated for 2020-2021 and into 2022
# Economic outlook

<table>
<thead>
<tr>
<th>Headwinds</th>
<th>Tailwinds</th>
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<tbody>
<tr>
<td><strong>Federal</strong></td>
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<tr>
<td>• Up to 20% unemployment (37m jobs vulnerable)</td>
<td>• $8b emergency health care supplement</td>
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<tr>
<td>• Up to 50% drop in GDP – St. Louis Fed</td>
<td>• $100b paid sick leave and unemployment</td>
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<td>• 0.4% GDP drop, recovery mid-2022 – UCLA</td>
<td>• Fed action to support functioning markets with liquidity and stability</td>
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<td>• Additional states and cities to exceed hospital capacity in next few weeks.</td>
<td>• $2.2t in stimulus support, unemployment benefits</td>
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<tr>
<td><strong>State</strong></td>
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<tr>
<td>• Statewide “Shelter in Place”</td>
<td>• Federal disaster declaration creates opportunity for potential FEMA reimbursement – significant lag time</td>
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<tr>
<td>• Schools closed through August/September</td>
<td>• EDD unemployment benefits increased</td>
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<td>• Continued daily new case identification and death counts</td>
<td>(additional $600 per week to July 31, 2020 and waiting period waived)</td>
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<tr>
<td><strong>Local</strong></td>
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<tr>
<td>• Closure of key accounts (Huhtamaki and Kikkoman so far)</td>
<td>• Availability of small business loans.</td>
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<tr>
<td>• Closure of arenas and theatres</td>
<td>• Sacramento COVID-19 response fund (Donate4Sacramento) surpassed $1m to support local families, nonprofits and small businesses</td>
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<tr>
<td>• Closure of many small businesses</td>
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# Early Proactive Response: Operations

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tr>
<td>FEB 26</td>
<td>Emergency Operations Center (EOC) activated February 26: Level 1 (partial activation, remote only, minimal staff)</td>
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<tr>
<td>MAR 13</td>
<td>EOC elevated to Level 2 on March 13 (partial activation, remote, higher staffing level)</td>
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<tr>
<td>MAR 17</td>
<td>EOC elevated to Level 3 on March 17 (full activation, physically staffing EOC, Monday to Friday, with remote option)</td>
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<tr>
<td>DAILY</td>
<td>Executive team meeting daily to assess situation and evolving information, make decisions and pivot as necessary</td>
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<tr>
<td>DAILY</td>
<td>Executives meeting with their leadership teams daily</td>
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<tr>
<td>DAILY</td>
<td>Temperature screening before entering SMUD buildings or jobsite</td>
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**Early and aggressive social distancing strategy**

- Suspended travel
- Meeting restrictions
- Suspended participation in community events
- Split crews
- Staggered start times
- Split 24/7 onsite staff between multiple locations
- Support for maximizing social distancing and minimizing risks for field staff
- Temporary campus closure
- Remote work where possible
- Sequestration in place for some work groups starting April 16
Proactive response: Supporting employees

<table>
<thead>
<tr>
<th>COVID-19 Paid Leave program</th>
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<tr>
<td>COVID-19 resource and update website for employees</td>
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<tr>
<td>Daily email updates with program information and user-generated content to keep employees connected</td>
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<tr>
<td>Tailored communications for field employees</td>
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<tr>
<td>Shared resource program</td>
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<tr>
<td>Leave donation program (in development)</td>
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<tr>
<td>Care and Connect program for sequestered employees</td>
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</table>
Supporting customers

Suspended disconnection of power due to non-payment for residential and commercial customers

Easier to apply for Energy Assistance Program Rate (EAPR), including changes to income qualification

Paused the recertification process for EAPR and MEDRate customers

Dedicated webpage with updates and resources for residential and business customers. smud.org/coronavirus

Energy Specialists working remotely, engaging with customers and using energy usage and bill data to provide customized education and prioritize for weatherization, energy efficiency and electrification work once we’re able to return to the field

Working with nonprofit partners to determine how to support them in their time of need
Supporting customers: Communications

Outreach to customers in multiple channels with information and tools to support them during the pandemic.


Supporting messaging in email, social media and print.

Emails to residential and commercial customers. Strong open rate of 43%, compared to SMUD average of 23%.

Strong engagement in other digital channels. smud.org web traffic is up 6% since February 28, with 9% of traffic coming from new visitors.

smud.org/coronavirus page has received 11,000+ views since published March 13.

Three videos for social media featuring SMUD field employees to remind the public to practice social distancing around our crews.
What our customers are telling us

7% of customers say they’re very unlikely to be able to pay next month’s utility bill.

70% of SMUD commercial customer respondents feel their financial situation will be slightly to much worse in the next two months.

56% of SMUD residential customers say they are using more electricity.

60% of SMUD commercial customers expect to use somewhat less to a lot less electricity.

68% of SMUD residential customers feel SMUD is prepared to continue providing reliable power during the current situation.

76% of SMUD residential customers state they are aware of seeing communications from SMUD on not shutting of power for non-payment.

J.D. Power shared SMUD’s COVID-19 web page and customer communications as one of a small handful of examples of utilities that are responding well to the COVID-19 issue in a webinar to share results of its COVID-19 pulse survey in late March.
SMUD’s financial reality before COVID-19

• At SMUD, cash is king

• Cash outflow is ~$3m/day

• Cash inflows come from two main sources:
  1. Customer payments
  2. Financing

• Before COVID-19
  - Found $28m of operational efficiencies. This is in our plan.
  - We were working on finding offsets to $30m of unplanned, mandated wildfire costs (vegetation management)

• Post-COVID-19, revenue impacts will require us to increase borrowing in the short term
SMUD’s new financial reality: What we’re monitoring

**Load and electricity sales**
- Temporary closure of many businesses
- Changes in commercial and residential load patterns
- System-wide we’re seeing a 3% reduction on weekends and a 7% reduction on weekdays, based on early data
- We are continuing to monitor and refine load forecast based on latest data

**Customer impacts and revenue**
- Net decrease in revenue due to decrease in load (only partially offset by commodity reduction)
- Customers’ abilities to pay their SMUD bills will be impacted by economic downturn and high unemployment, likely increasing write-offs and slowing the pace at which we collect revenue from our customers
- Delinquencies, collections, payment agreements, write-offs: Increase expected, but too early to know extent
- Longer term commercial customer impacts
- Bill payment cadence uncertain
- 2008 increases in delinquencies were very limited, but this was without suspended shutoffs, therefore no certainty about customer payment response
- Delayed payments can cause significant impact to days cash; anticipate initial one-time larger impact then ongoing drag on cash flow
SMUD’s new financial reality: What we’re monitoring

Increased costs
• Hard costs and indirect costs of transitioning to large remote workforce (1,400 working remotely, compared to 100 typically working from home on any given day)
• Additional safety measures, leave costs
• Sequestration costs: Salaries, stipends, accommodation (RV rental)

EAPR applications
• Number of applications holding steady, expect spike
• Higher unemployment, mostly (95%) lowest-paid workers, will drive continued increases
• Expecting rapid increase in number of EAPR customers, due to anticipated Sacramento rapid unemployment peak, unlike more gradual historical recessions

Supply Chain
• Some vendors have invoked contractual arrangements to put SMUD on notice for potential interruptions to operations/service
• Continuing to monitor for supply chain disruptions
• Some commodity market counterparties are distressed and we’re minimizing credit risk
Impact of sudden load drop

- Lower electricity sales (kWh) means lower revenue
  - Gross revenue loss for 2020: $47m - $68m
  - Gross revenue loss for 2021: $67m - $128m

- SMUD’s commodity costs will decrease

- However, many of SMUD’s business costs are fixed: poles and wires, wildfire vegetation management and insurance, accounting, billing, treasury, grid operations, cyber security, customer contact center, etc. – these costs all remain so we can keep the lights on

- If revenue doesn’t cover these necessary fixed costs, we need to take action to keep SMUD financially healthy

- While SMUD is not-for-profit, we must still meet minimum financial metrics
# Consolidated financial impact

## Reduction ranges required

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<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>O&amp;M</td>
<td>$30m-$40m</td>
<td>$25m-$75m</td>
</tr>
<tr>
<td>Capital/Cash Balances</td>
<td>$30m-$45m</td>
<td>$50m-$100m</td>
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## Expected Case

- High degree of uncertainty for both years, greater uncertainty in 2021 and 2022
- 3-7% load drop for 2020 during shelter in place; recessionary load drop in 2020/2021/2022
- Relaxing Fixed Charge and Days Cash for single year, then resume to current targets
- EAPR subsidy increases & additional write-offs
- COVID-19 response is also increasing costs
- Assumes borrowing available with low interest rates
- Additional cost reductions required if shelter-in-place is extended
Strong financial management is helping

• Proactive financial management means we’re better positioned in times of crisis.

• Previous actions and financial stewardship have increased our financial strength:
  - Increased fixed charge from 1.50 to 1.70
  - Increased days cash from 100 to 130 to 150 days
  - Paid off debt of 2 thermal plants early

• Strong focus on Operational Excellence
  - $28m in permanent annual savings reduced 2019 Rate Action by 2%

• While past decisions and focus give us more financial flexibility and help insulate us from some of the likely longer-term financial impacts from COVID-19, the situation is dynamic and there will be more difficult decisions needed

• SMUD’s forward thinking on rate restructuring has helped: Fixed charge, Time-of-Day rates, EAPR restructure and the recently approved commercial rate restructure
Cost reduction decisions we’ve already made

<table>
<thead>
<tr>
<th>O &amp; M - 2020</th>
<th>Capital / Cash Balances - 2020</th>
<th>Other</th>
</tr>
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<tbody>
<tr>
<td>• 3-month hiring freeze, longer if needed ($1-2m)</td>
<td>• Delayed the supplemental $9.5m payment to OPEB.</td>
<td>• Monitoring commodity trading partners – some are distressed – and defensively changing business relationship (buy-only, reducing unsecured credit)</td>
</tr>
<tr>
<td>• Reduce 2020 travel/training budget by ($2m)</td>
<td>• Settle nuclear litigation</td>
<td>• Monitoring interest rate markets for access to short-term commercial paper funding to bolster liquidity. Preparing to go to long-term debt market in late April as markets normalize.</td>
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<tr>
<td>• Delay roll out of conference room technology to remaining rooms ($300,000)</td>
<td>• Sell energy efficiency loan portfolio</td>
<td>• Relaxing key financial metrics to increase liquidity (reduces savings requirements $50m capital).</td>
</tr>
<tr>
<td>• Not seeking additional Community Choice Aggregation clients ($3m upfront investment before revenue received)</td>
<td>• Delay infrastructure spending associated with economic expansion ($15m)</td>
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<tr>
<td>• Shifted implementation of some energy efficiency efforts to further years ($10m)</td>
<td>• TOTAL Estimated at least $25m</td>
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<tr>
<td>• Reduced R&amp;D pilots and implementation ($3m)</td>
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<tr>
<td>• TOTAL Estimated $20m</td>
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April 16, 2020 20 Board of Directors Meeting
### 2020 gaps

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<thead>
<tr>
<th></th>
<th>Reduction range required</th>
<th>Savings identified</th>
<th>Gap</th>
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<tr>
<td>O&amp;M</td>
<td>$30m-$40m</td>
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<td>$30m-$45m</td>
<td>$25m</td>
<td>$5m-$20m</td>
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Will need to make more decisions

We’re continuing to monitor SMUD data and other jurisdictions for changes and new information

- Refine modeling, scenarios and finalize additional cost reductions based on data
  - Commodity markets, commodity counter parties and impacts to our commodity budget
  - Understand impacts to Sacramento businesses
  - Understand impacts to Commercial Development and our required capital investments to serve
  - Interest rates and short and long-term financing environment
  - Legislative and regulatory decisions – national, state and local
- Stress test scenarios to prepare us if conditions worsen

Additional action

- Majority of 2020 reductions are in place based on current forecast. Now focused on 2021 while continuing to look at 2020
- Review procurements for further prioritization and potential deferrals of non-critical spending
- Revise management’s metrics to reflect critical operations, prioritization, financial health and meeting customer and community needs
May Board meeting

Update the Board on COVID-19 financial and operational impacts

Progress on identifying cost reductions for 2020 and 2021

Identify impacts to any of the Board's Strategic Directions

Possible discussion of need to relax specific Strategic Direction metrics such as:
  - SD-5 Customer Relations
  - SD-9 Resource Planning
  - SD-14 System Enhancement
COVID-19 In Summary

**Foundational strengths**
- Prepared operationally for COVID-19
- Financially strong
- Data analytics providing real time data to support timely quality decisions

**Clarity of information and taking action**
- Steps already taken
- Cash focused

**Planning for continued uncertainty**
- Conservative approach with scenario planning and stress testing
- Controlling what we can control; mitigating what we can’t control
- Staff and the Board will need to make tough decisions to navigate the crisis
Questions