

Exhibit to Agenda Item #2

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
Tuesday, February 18, 2020 scheduled to begin at 5:30 p.m.
Auditorium, SMUD Headquarters Building

Requested Action

Approve a 12-month extension of the exception to SMUD's **Energy Risk Management & Energy Trading Standards** to allow the Chief Executive Officer and General Manager to enter into transactions with **Pacific Gas and Electric Company (PG&E)** for the purchase of energy products necessary for meeting SMUD's or its CCA Credit Services client's regulatory and/or reliability requirements.

Current Standards

- 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 Extending the PG&E Exception

- PG&E continues to be a key supplier of Resource Adequacy (RA) that maintains system reliability in and around SMUD's and Valley Clean Energy's ("VCE") service territories.
 - *Unable to post collateral as it works through Chapter 11 bankruptcy proceedings.*
- Without the extension, SMUD may have difficulty procuring RA capacity or other services before PG&E emerges from bankruptcy with an acceptable credit rating.
 - *Plan to emerge by June 30th to comply with requirements to participate in State funding solution.*
- SMUD needs to continue to enter into forward RA capacity contracts to procure remaining 2020 requirements and expected 2021 obligations.
 - *Opportunity for multi-year RA contracts and potential for scarcity may lead SMUD to procure 2022 and 2023 RA capacity.*

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