

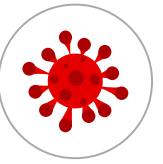
# Exhibit to Agenda Item #6

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, May 21, 2020, scheduled to begin at 5:30 p.m.

# Agenda



**1** State and local perspective

**2** Operational update

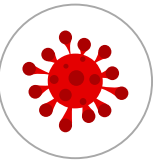
**3** Workforce update

**4** Customer and community update

**5** Financial update

**6** Metrics

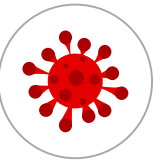
# Proactive response and recovery framework



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

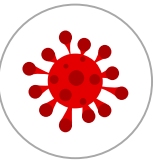
- Safety is always SMUD's priority. Rigorous risk mitigation measures in place for employees in all aspects of our operations.
- Ongoing integrated and robust planning for wide range of major events: Business Continuity, Emergency Management, Disaster Recovery, Crisis Communications
- Regular scenario 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
- Flexible and nimble response plan: Ability to pivot quickly as data changes
  - Extended campus closures
  - Began sequestration program
  - Proactive financial decisions to minimize impact to business and increase operational flexibility (hiring freeze, reduce R&D pilots, reduced travel/training budget, increased borrowing)
- Conservative re-entry planning focused on employees and public safety

# Updates since April



	April	May
COVID-19 cases – World	2.2 million	5.0 million
COVID-19 deaths – World	130,000	329,816
COVID-19 cases – U.S.	635,000	1.6 million
COVID-19 deaths – U.S.	30,000	93,863
COVID-19 cases – Sacramento	853	1,266
COVID-19 deaths – Sacramento	32	56
Unemployment claims – U.S.	22 million	38.6 million
Unemployment claims – California	2.17 million	4.4 million
California unemployment forecast	18.5%	25%
Recovery	V or U-shaped	W or “Swoosh”

# New data since April



## National

- Retail sales declined by 16.4%, manufacturing by 13.7% in April



## State

- \$54.3 billion budget deficit projected for California
  - 10% wage reduction proposed for state workers
  - Reduced funding for education, environment, prisons and other programs
  - California State University system moved to online instruction through the end of 2020



## Local

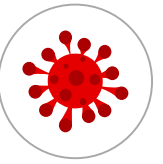
- Pause proposed on several State construction projects
- 24 counties approved for re-opening, with modifications



## SMUD

- Re-entry planning underway

# Updates: Key staff decisions since April



Hiring freeze extended to Dec. 31, 2020, CEO approval needed for all exceptions

Remote work extended to June 14

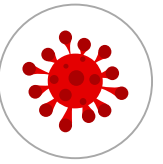
Phased approach to re-entry

Moratorium on disconnections for nonpayment and late fees

Procurement approval changes: \$100,000 or more requires approval from the executive of the requesting business unit

The screenshot shows the SMUD website with a yellow banner at the top stating: "All SMUD buildings, including the Customer Service Center, are closed. Payments can be made in [My Account](#) or by calling 1-888-742-7683. [See our latest COVID-19 updates](#)". Below the banner is the SMUD logo and navigation links for "Sign In" and "Menu". The main content area features a large image of a coronavirus particle and the text: "Please, be safe and stay well. We're here to support our community, businesses and neighborhoods. Learn how you can get help with your bill or help others during these difficult times." Below this is a section titled "Help with your bill" with the text: "We know customers may experience financial hardship during this time. We want to help. For those that can, thank you for paying your bill on time." Further down is a section titled "Not shutting off power for non-payment" with the text: "We know how challenging things are now. Extended through May 30, we will not disconnect your power due to non-payment. And we won't add late fees to your bill. We want all of our residential and commercial customers to have power at this time. Customers who are behind on payment will still owe SMUD for service, they will just not lose power at this time." At the bottom right is a video player with the text: "We're here to help during COVID-19" and "SMUD is your community-owned, not-for-profit electric utility".

# Operational update



✓ No COVID-19 cases among SMUD employees

✓ No impact to our ability to keep the lights on

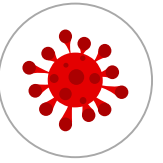
## Highlights

- Extensive ongoing work to keep the lights on
- Comprehensive coordinated COVID-19 effort through
- EOC (multi-department), in collaboration with other utilities and agencies. Reduced to Level 2
- Proactive screening for COVID-19 (sequestered employees and some in Energy Delivery)
- End of sequestration (employees living in RVs)
- Proactive financial decisions to minimize impacts and provide operational flexibility





# Workforce update

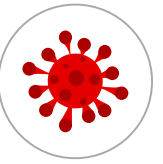


## Highlights

- New Health & Safety protocols for those reporting onsite (tailboards, sanitization, temperature screening, split crews and shifts, staggered start times)
- COVID-19 Paid Leave and Catastrophic Leave programs
- Shared Resource program
- 1,400 employees working remotely
  - Accelerated transition to MS Teams
- Communications: Video blogs, COVID-19 SharePoint site, daily email updates
- Re-entry planning underway

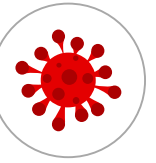


# Re-opening and re-entry



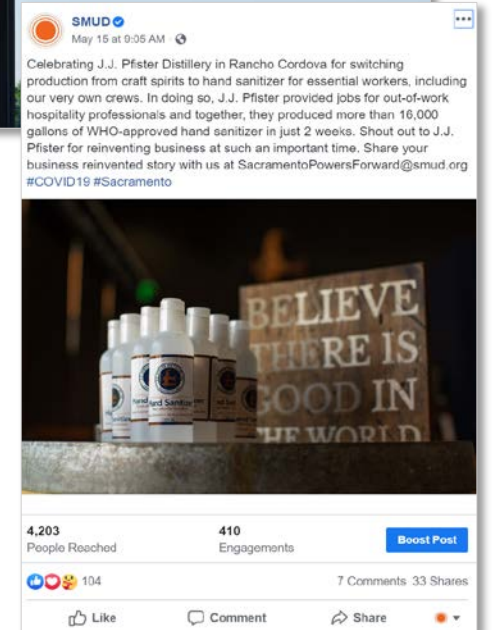
- Governor's COVID-19 Resilience Roadmap
  - Guidance documents for industries
  - Utility industry guidelines
  - Moved to phase 2, with sectors and counties gradually re-opening
- SMUD has transitioned from COVID-19 response to planning for re-entry, recognizing our financially modelling and response work will remain critical through re-entry and beyond
- Re-entry planning focuses on four key areas
  - Phases and stages
  - Changes to the workplace
  - Customer and community re-engagement
  - Culture and readiness
- Conservative approach based on employee and public safety
- Increased remote work over long term

# Customer & Community update

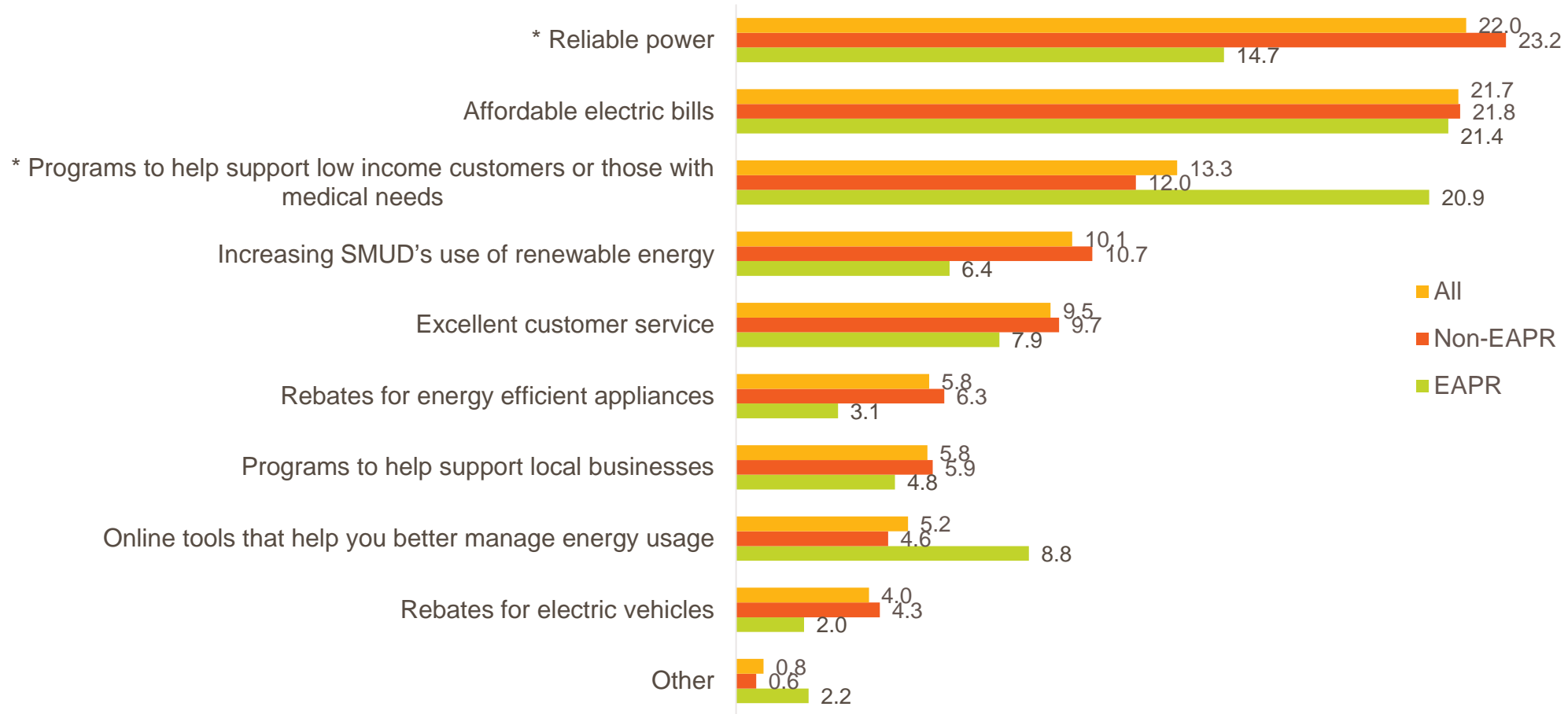
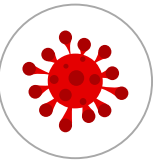


## Highlights

- Our customers and community are hurting and we're finding new ways to support them during this difficult time.
- Moratorium on disconnections for nonpayment and late fees
- Regular updates: [smud.org/coronavirus](https://smud.org/coronavirus), email, social media
- New "Stay Well" marketing campaign version 2 launches June 1. Builds on multi-language videos and social media videos featuring SMUD employees
- Sustainable Communities Resource Priorities Needs Map
- Small/medium business social media campaign ("Business Reimagined")
- Online STEM educational resources
- Virtual solar summer camp
- Kept commitments to community partners and local nonprofits
- Community Aid program
- Big Day of Giving
- Continued support for developers

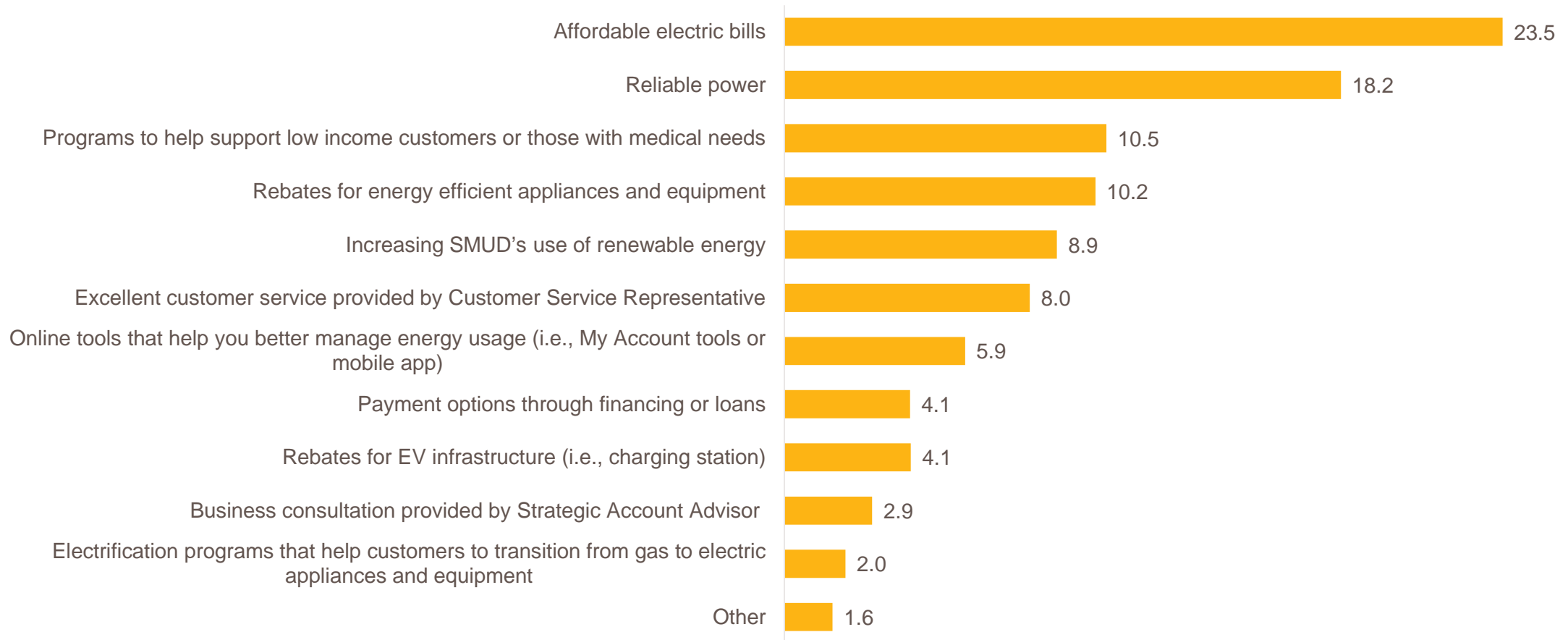
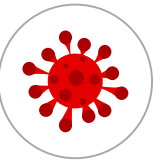


# Customer priorities: Residential



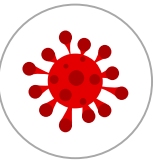
**Q:** Please think about the areas which SMUD could focus on when delivering services to customers. Now, if you had a total of 100 points, how would you assign them to the following areas to indicate what is most important to you. You can assign points to one or more areas. (n = 505)

# Customer priorities: Commercial



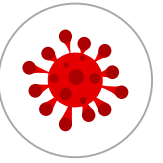
**Q :** Please think about the areas which SMUD could focus on when delivering services to customers. Now, if you had a total of 100 points, how would you assign them to the following areas to indicate what is most important to you. You can assign points to one or more areas. (n = 167)

# Updates since April: Learnings & improvements



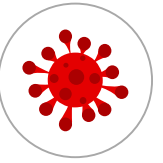
- Significant \$49m spending reduction for 2020
- S&P and Fitch reaffirmed SMUD's AA Rating. "Negative outlook" removed by S&P and Moody's. Wildfire mitigation plan was key to the negative outlook removal
- Increased borrowing (\$400m) was successful, increases cash and gives operational flexibility
- Employees have adjusted to changed realities on campus and at jobsites and organization is getting comfortable with remote work
- Disruption has accelerated positive change
- We launched programs quickly and accelerated deployments
- We're making good decisions based on imperfect information and pivoting when new information is available – financial modelling critical through 2023

# Updates since April: Challenges remain



- Unemployment has spiked, 4.8 million claims in California since March 12
- Gradual re-opening of the local economy
- Gradual re-entry to SMUD locations in phases, likely over months
- Budget cuts in 2020 no longer enough. Now necessary in 2021, 2022 and beyond
- Recession possibly through 2023, maybe longer
- Difficult decisions ahead – 2021 and 2022 budget

# Current Financial Modelling

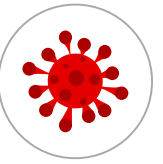


## We made assumptions for

- Shelter in place lasting through mid June, partial openings through August
- Weather-adjusted load and revenue decrease
  - During Shelter in Place: 6% drop in load
- Duration and depth of recession post COVID
  - 2020 total load decrease 4.0% (shelter in place & recession following)
  - 2021 total load decrease of 4.1% (recession)
  - 2022 total load decrease of 4.6% (recession)
- Amount of successful debt issuance and interest rate (\$400m and 3.26%)
- Incurring immediate cost increases due to COVID-19 (\$15m); unsure of the long-term costs such as medical premium increases



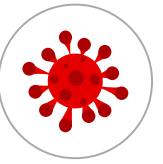
# Current Financial Modelling (cont.)



## Customers' Ability to Pay

- Bad debt is increasing. However, too early to refine early estimates
- Residential customers already struggling, plus now small commercial also struggling
- Past due receivables have grown by 48% since March 21, by about \$6.3m.
- Good news that pre-COVID, very low instance of bad customer debt. While the % and dollar amount is increasing, the growth in the count of customers, at this point, appears to be leveling off
- Anticipate more customers will rely on the EAPR low income subsidy
- EAPR subsidy amount forecasted to increase (by \$8m in 2020; \$11m in 2021; \$8m in 2022)
- Anticipate that customers will pay their bill slower and that bad debt will increase
- Growing concern about business recovery as Shelter-in-Place order is lifted, as well as the level of sustained long-term unemployment

# The bottom line



Our goal is to prevent additional rate increases for our customers. It means:

2020

Accomplishing our work within the reduced operating and maintenance (O&M) budget in the forecast.

2021

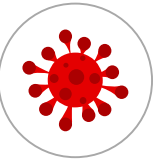
Accomplishing our work within budgeted O&M reductions, **expected to be \$62m** based on latest modelling. Forecast includes rate increases approved last year (2019).

2022

Accomplishing our work within budgeted O&M reductions, **expected to be \$40m** based on latest modelling. (e.g., retain \$40m of the cuts from the previous year).

Our ability to achieve our goal is based on many factors, but we are working to mitigate factors within our control

# COVID-19 In Summary



## Foundational strengths

- Prepared operationally for COVID-19
- Financially strong
- Data analytics providing real time data to support timely quality decisions, pivot when necessary



## Clarity of information and taking action

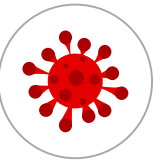
- Additional month of data has provided some clarity; situation remains dynamic
- Proactive steps already taken
- Cash focused, with some successes (successful bond financing)



## Planning for continued uncertainty, with signs of hope

- Conservative approach with scenario planning and stress testing
- Controlling what we can control; mitigating what we can't control
- Planning for re-entry, using state and local public health guidance to guide our strategy
- Staff and the Board will need to make tough decisions to navigate the crisis

# Looking ahead: Metrics



## Among the SD's we're not changing

- SD-6, Safety
- SD-3, Access to Credit markets
- SD-9, Resource Planning
- SD-11, Public Power Business Model
- SD-12, Ethics
- SD-16, Information Management and Security



## Future discussion about possible amendment

- SD-5, Customer Relations
- SD-14, System Enhancement