

Exhibit to Agenda Item #12

Enterprise Risk Management Update including wildfire preparation activities.

Board of Directors Meeting

Thursday, September 17, 2020, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)

Noteworthy Updates

- External Risk: Wildfire Preparation
- Financial Risk: Price Volatility/Commodity and Operational Risk: Ethics/Integrity

Wildfire Preparation

In preparation for the 2020 wildfire season, as a part of our operating practices, staff has reviewed the applicable wildfire procedures, continues to leverage situational awareness using real-time operations tools

Initiatives to prevent wildfires include:

- Increased routine inspections of its electrical infrastructure;
- Adopting new technologies to aid vegetation management programs;
- Established protocols for de-energization of high voltage lines when necessary; and
- Suspending some automatic outage restoration technology

Wildfire mitigation activities within the Upper American River Project (UARP)

- Widening of transmission line corridors to gain additional clearance from trees;
- Installing covered conductors on the South Fork line;
- ½ mile of undergrounding of overhead 4kV lines
- In the process of upgrading breakers on the 4kV lines to allow operators to remotely de-energize when needed
- Planned deployment of drones to capture high resolution images of assets within the high fire threat areas

Wildfire mitigation activities within SMUD's service area

- Disabled automatic reclosing on circuits within the pole clearing area prior to the start of fire season;
- Updated operating procedures for de-energization;
- Completed annual vegetation management work;
- Begun installation of non-expulsion equipment within high risk areas

Helping customers prepare

- SMUD has identified additional steps to help customers prepare for wildfire season:
 - Requesting customers to update information to receive notifications;
 - Additional language support;
 - New materials and resources available at smud.org/wildfiresafety;
 - An awareness campaign for customers not already participating in the MED Rate Program; and
 - Wildfire Safety marketing campaign designed to advise customers of our safety efforts this summer and fall.

Risk: Price Volatility/Commodity and Ethics/Integrity

Recent News Surrounding Portland General (PGE)

Portland General Electric (PGE) announced they recently experienced trading losses and the stock price has lost more than 10% in a few days.

In an 8k filing, PGE stated:

“... energy trading activity in certain wholesale electricity markets resulted in realized and unrealized losses of \$127 million as of August 24th with total third quarter losses estimated to be up to \$155 million subject to market conditions – although the ultimate amount of the losses could exceed that amount.”

“Certain PGE personnel entered into a number of energy trades during 2020, with increasing volume accumulating late in the second quarter and into the third quarter, resulting in significant exposure to the Company.”

Trading strategies and events surrounding the August heat wave are most likely to blame

Placed two personnel on leave, brought in risk consultants and quickly have changed trading authorization policies to include senior management.

SMUD Has Risk Control Processes

- Developed clear and concise segregation of duties
 - Front, Middle and Back Offices – two different Executives purview
- Established formal Hedging Strategy approval process
 - Directives authorized by the Enterprise Risk Oversight Committee (EROC)
- Board Approved Trading Guidelines
 - Transaction limits and listed authorized and prohibited transactions
- Frequent exposure measurement and reporting;
 - At least monthly, but more frequent in volatile markets
- Periodic review and audit
 - Policies, processes, methodologies and data/assumptions