

Exhibit to Agenda Item #5

Authorize SMUD's Accountant to defer recognition of \$35 million of 2021 operating revenues to offset future one-time specific expenditures in order to match such expenditures in the appropriate accounting period for rate-making purposes.

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
Tuesday, December 7, 2021, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)

2021 Financials – Unusual Events

COVID-19 impact on 2021 Finances

- Revenues higher than plan due to the assumption we would return to pre-pandemic conditions in early 2021; resulted in higher residential sales
- Expenses lower
 - Focus on setting ambitious 2030 Zero Carbon Plan
 - COVID reduced business activities
 - Caldor wildfire prevented some planned maintenance
- Increase in customer delinquency balances with partial offset from \$41 million in California Arrearage Payment Program (CAPP) funding
- Resulting in higher net income than planned

Options Considered

1. Revenue Deferral - **Recommended**
2. No Deferral – funds included in unrestricted funds
 - Metrics most favorable for capital project spending
 - 2030 Zero Carbon Plan – greater Operations and Maintenance (O&M) spending compared to traditional centralized electric utility model

Benefits of Deferral of Revenues

- Help offset future one-time expenditures
- Mitigate risks from unforeseen or one-time events
- Provide reserves to cover large contingencies
- Aligns with 2030 Zero Carbon plan O&M spending for pilots and programs
- Operational Flexibility - Spending not tied to specific year

Regulatory Accounting

- Governmental Accounting Standards Board (GASB) allows regulated entities to defer revenues as a regulatory liability for recognition in future years
- Deferral allows for appropriate matching of revenue with expense recognition for rate making purposes