

Exhibit to Agenda Item #2

Provide the Board an informational presentation on SMUD's policy governance model.

Board Policy Committee and Special SMUD Board of Directors Meeting
Wednesday, March 9, 2022, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)

SMUD Policy Governance

Overview:

- Brief history
- Key benefits
- Stewardship
- Scenarios

The SMUD Policy Governance System

The Board has developed governance policies in three areas:

- Governance Process (GP) 15 policies
- Board-Staff Linkage (BL) 14 policies
- Strategic Direction (SD) 19 policies

Together, these 48 policies form a complete, integrated system of governance

Ongoing Stewardship

SMUD's Board has had its policy governance system in place since 2004.

Since then, the policies have continued to evolve.

Benefits

The system has proved its value through SMUD's overall performance and leadership as a utility. It provides:

- A strengthened role and voice for the Board in defining SMUD's overall direction and goals
- Clear definition of the results that the Board wants SMUD to achieve.
- Performance measures tied to those results.

Benefits

- A system that enables the Board to speak as one in its directives to the CEO.
- A system that provides the CEO flexibility to interpret how best to balance Board policies.
- Clear delineation of the Board's role and the CEO's role.
- A system that provides recourse to the CEO for “micro-management” by Board.
- Strengthened relations between Board, the CEO and staff.

Benefits

- Delegations to the CEO that enable the Board to stay focused at a more strategic level.
- Quantifiable performance measures for evaluating the CEO.
- A defined process for monitoring the policies.
- A path for revising existing or creating new policies.

Benefits

- Policies that are well-organized and easily accessible to Board members and the public.
- Policies that can be easily reviewed and understood.
- A policy that directs the Board to regularly evaluate its performance.

Benefits

Clarity about:

- The Board's annual work plan.
- Aligning agendas to the work plan.
- Committee roles, committee structure and membership.
- Roles of Board president and the committee chairs.

Ongoing Stewardship

How can Board members be effective stewards of SMUD's governance system? What do you need to be mindful of?

Unity of Control

The Board's Unity of Control policy (BL-5) is one key. It states:

Only decisions of the Board acting as a body are binding on the General Manager, the General Counsel, and the Internal Auditor.

Specifically, in or out of the Board meeting:

- a) Decisions or instructions of individual Board members, officers, or committees are not binding on the General Manager, General Counsel or Internal Auditor except in instances when the Board has specifically authorized such exercise of authority.

Unity of Control

- b) In the case of Board members or committees requesting information or assistance without Board authorization, the General Manager, General Counsel or Internal Auditor must refuse such requests that require, in their opinion, a material amount of staff time, or funds, or are disruptive.

Unity of Control

- c) Board members may communicate directly with SMUD employees or contractors. However, the Board as a body and the Board members will never give direction to persons who report directly or indirectly to the General Manager, with the exception of the General Counsel, Internal Auditor and Special Assistant. If individual Board members are dissatisfied with the response they receive, they may seek a resolution by the Board.

Unity of Control

- d) Board Members will refrain from evaluating, either formally or informally, any staff. The Board as a body will refrain from evaluating, either formally or informally, any staff other than the General Manager, the General Counsel, the Internal Auditor, and the Special Assistant.

Ongoing Stewardship

The Unity of Control provides assurance that the levels of delegated authority will be adhered to by all parties. That frees everyone to focus on his or her job.

But the Unity of Control is just one standard that Board members need to remember. The Board also has a policy (GP-7) that defines Guidelines for Board Member Behavior.

Guidelines for Board Member Behavior

- d) Board members may not attempt to exercise individual authority over the organization except as explicitly set forth in Board policies.
 - i. Board members should recognize the lack of authority vested in them as individuals in their interactions with the CEO/General Manager or with staff, except where explicitly Board authorized.
 - ii. In their interactions with the public, press or other entities, Board members should recognize the same limitation and the inability of any Board member to speak for the Board or for other Board members except to repeat explicitly stated Board decisions.

Guidelines for Board Member Behavior

- e) Board members shall at all times endeavor to express their individual opinions in a responsible manner, without causing harm to SMUD, to SMUD's owners and customers, or to other Board members and staff.
- i. Each member of the Board is expected to support the Board's decision-making authority, irrespective of the member's personal position.
 - ii. Board members retain the right to criticize the decisions of SMUD, but in doing so should make it clear that it is their opinion, and not the opinion of the Board or other Board members, and so long as it complies with the limitations set forth in these policies. Board members are encouraged to notify the CEO/General Manager in advance when they plan to speak publicly in opposition to SMUD decisions and policies.

Scenarios

Here are a few scenarios that Board members should be mindful of.

In each case, think about which alternative is better – and why.

Scenario

1. You've decided that the utility needs to substantially increase its renewable portfolio.

Alternative A: You call the head of energy resources division and request that she present a plan to the board next month.

Alternative B: You note that energy supply is a topic on the Board's work plan. When that meeting occurs, you ask the head of energy resources, what the implications would be if the utility were to increase its renewable portfolio.

Which Choice is Better?

Alternative B is the better choice because you're working through standard Board processes, rather than outside of them. It maintains transparency and demonstrates respect for your fellow Board members and the CEO.

Alternative A steps over the line of unity of control. Even if you direct this request to the CEO, it's not the preferred approach.

Scenario

2. When a senior manager makes a presentation to the Board, you find him to be uninformed by the latest science. You are not sure he is competent for his position.

Alternative A: You ask the CEO in your regular one-on-one meetings how the senior staff is doing and offer feedback in a confidential setting about the senior manager.

Alternative B: You question the accuracy of his report in public and imply that he does not know what he is talking about.

Which Choice is Better?

Alternative A is the better approach. Having a private conversation with the CEO can give you more insight into the value of senior staff and provide the opportunity to give feedback in a confidential setting.

Alternative B steps over the line of unity of control. Board members should avoid any evaluation of staff performance.

Scenario

3. You have long-standing connections in the community, and you know people who could be excellent employees at the utility.

Alternative A: You call a manager you know at the utility and suggest that they consider these candidates.

Alternative B: You encourage people you think would be a good fit to check job openings at the utility. If you know the person well, you could also give them permission to list you as a reference.

Which Choice is Better?

Alternative B is the better choice – thought it can be problematic if your friends try to use their relationship with you to influence the hiring process.

Alternative A is a clear violation of the unity of control. Board members should never try to influence management hiring decisions or contracting decisions.

Scenario

4. The CEO and senior staff have held confidential discussions with a landowner who may sell a large parcel to the utility for a solar field. You are not in favor of this purchase.

Alternative A: You call a reporter to express your concern over this project.

Alternative B: You're aware that the purchase of this parcel is subject to approval by the Board. You wait to bring up your concerns until the matter comes before the Board.

Which Choice is Better?

Alternative B upholds the Board's standard processes and maintains trust with your colleagues and the CEO.

Alternative A puts the CEO in the awkward position of having to answer questions from the press resulting from one Board member's unhappiness.

Although you have the right to express your opinion, you need to think through the possible consequences. It can result in a story that focuses on dissension within the organization rather than the merits of the issue.

Scenario

5. You are concerned that the utility is not doing enough to contribute to economic development for the city.

Alternative A: During a presentation at the Chamber of Commerce annual luncheon, you encourage the members to bring pressure on the utility to develop a more robust economic development rate.

Alternative B: You ask that economic development be added to a future agenda. At that meeting, you ask management about the implications of discounts on electric rates for new businesses considering locating in the service territory.

Which Choice is Better?

Alternative B is the preferred approach. As a Board member, it's better to work within the organization to effectuate change than to use outside pressure.

Alternative A positions you as an advocate for the Chamber's objectives rather than as a Board member who represents the entire community.

Scenario

6. You're at a technology expo featuring speakers about battery storage. Two other members of the board are there, as well as several members of the management team. A presentation on a new lightweight battery technology impresses you. You turn to the manager sitting next to you and say:

Alternative A: “What do you think about what we have seen here?”

Alternative B: “I think you should definitely look into this.”

Which Choice is Better?

Alternative A is the preferred option. Other ways to phrase it:

- “I’m curious what you think about this?”
- “What do you think would be the pros and cons of deploying this at our utility?”

Alternative B can easily be misinterpreted as a directive. As a Board member, remember that your voice is “louder” than you think it is.

Scenario

7. You're chairing a committee meeting featuring speakers about solar technology. The leader of an advocacy organization that has supported you in the past speaks strongly in favor of a specific recommendation. When it's your turn to comment you say:

Alternative A: "We need to give serious consideration to that idea. I'd like staff to look into it and give us a report."

Alternative B: "I appreciate everyone's comments. Your thoughts today have been very helpful."

Which Choice is Better?

Alternative B is the preferred response.

Alternative A steps over the line of unity of control. As chair, you have to be particularly careful about undercutting the Board's delegations to the CEO.

Getting input from outside stakeholders and advocates is an important part of your job. However, elevating one stakeholder's point of view can be easily misinterpreted. Staff members, managers, stakeholders, the press, and the public are listening intently to what you say.

Scenario:

8. You're not happy with the way a specific program is being designed or implemented.

Alternative A: You call the manager of that program and let her know what you want done differently.

Alternative B: You talk to the CEO and let him know your concerns. You make it clear that you don't expect your ideas to determine his decisions.

Which Choice is Better?

Alternative B is clearly the preferred response. By sharing your concerns with the CEO, you provide him an opportunity to give you more background and context – and potentially help you be better educated about the program.

Alternative A is a violation of the unity of control.

Scenario

9. As a Board member, you receive complaints from the public about how a particular program is designed and how to change it.

What should your response be to the public? How should you bring that information to the CEO/staff?

Scenario

10. An elected official from the County asks you, a Board member, to weigh in on the County's energy efficiency policies and programs.

How should you respond to the elected official? How should you bring that information to the CEO/staff?

Questions and Reflections

What other scenarios can you think of?

How would you handle them?