



November 2, 2018  
GM 18-277

## BOARD OF DIRECTORS

### **2019 BUDGET**

Dear Board Members:

I am pleased to submit SMUD's 2019 Budget proposal. It provides funding for operations and maintenance (O&M) and capital programs needed to meet all the Board's Strategic Directions over the coming year and ensures we will continue to do so in the future.

2019 will be an extremely critical year in laying the foundation for the future of SMUD. This year will see many transformational changes, with the rollout of Time-of-Day (TOD) rates, entry into the California Independent System Operator's (CAISO) Energy Imbalance Market, filing our Integrated Resource Plan (IRP) with the California Energy Commission (CEC), technology implementations such as Advanced Distribution Management System (ADMS) and the further exploration of new business models. In 2019 we will embark on commercial and net energy metering rate restructures which allow us to closer align our costs with our revenue. Together, all these changes help position SMUD to successfully navigate the significant changes facing our industry. We expect the pace of change will continue to increase, making the need to optimize our approaches, right-size mitigation efforts, ensure holistic views and collaborate across the organization more important than ever.

We are excited that the Headquarters rehabilitation will be complete in 2019 and expect employees to move back into the facility by mid-2019. The thoughtful rehabilitation of this historic landmark will deliver approximately 15% more floor area and provide flexibility to serve SMUD's needs for decades to come, with spaces that encourage creativity, nimbleness and collaboration. Approximately 400 employees will move back into the rehabilitated Headquarters building.

In 2019, we continue to focus on optimization and operational excellence, building on progress we've made to streamline our operations and reduce expected expenditures where we can do so without compromising safety, reliability and customer experience.

The proposed 2019 Budget is \$1.71 billion, which is \$25 million less than the 2018 Budget, primarily due to lower planned capital expenditures. The 2019 Budget funds a variety of programs including investments to support the development of our load serving capacity, grid modernizations, compliance with regulatory requirements and support for our TOD outreach and communications.

**Arlen Orchard, Chief Executive Officer & General Manager**

Major capital projects for 2019 include the continued rebuilding of Stations G and E, Franklin Substation, the Whiterock tunnel bolt replacement, beginning work on the Power Control Center and completion of our Headquarters project. The 2019 Budget includes funding for new and continuing technology projects. Major technology projects that will be completed in 2019 include the ADMS, network transformations (SONET and Frame Relay) and the Energy Trading & Risk Management project which improves energy resource and trading capabilities. In 2019, we'll begin upgrading to the Electronic Document Management system, building new microwave radio links to Solano Wind Farm and replacing old microwave radios. This contains funding for corporate contingency and reserve, which is for items with a high likelihood of occurring in 2019 but without enough definition to be included within a business unit's budget. In 2019, corporate contingency includes funds for load-serving capacity projects, a new carbon-free generation asset, the Downtown Street Car project, potential SD-14 projects, additional commercial development due to the changes to development fees and spare parts for the Cosumnes Power Plant.

The O&M budget is increasing, primarily due to an increase in our commodity budget, higher costs for wildfire insurance and mitigation and new programs for transportation and building electrification. As the Board knows, electrification is a critical part of our newly-adopted IRP, and an important part of our strategy to continue to provide a leadership role in the region's transformation to a low-carbon future. The budget also funds the rollout plan for switching our residential customers to TOD Rates. TOD is a significant change for our customers, and the funds allocated to TOD in 2019 focus on customer outreach and education.

The 2019 Budget authorizes 59 new positions, 19 are full-time and 16 are limited term positions. These positions are in support of the Technology, Energy Delivery, Workforce, and Community Energy Services (to support of Community Choice Aggregation (CCA)) workgroups. The positions for CCA work are all limited term as we continue to right size the staffing level for this new line of business. As our reliance on technology grows, many of the new positions, and in some cases new skill sets, are necessary to successfully move our business model and SMUD forward. We are also adding 24 student positions to support the expansion of our internship programs to draw on local collegiate resources to build our talent pipeline, particularly in STEM (science, technology, engineering and math) fields.

To fulfill the Strategic Directions you've set for us, strong financial management is imperative. The previously approved rate increase for 2019 of 1 percent for commercial customers (and no rate increase for residential customers) and our year-end cash balances will be sufficient to cover approximately half of our planned expenditures, with new borrowing in 2019 to fund the remaining capital expenditures.

We expect a modest increase in our customer count in 2019, and a slight decrease in our kWh sales volume. We recognize the potential for new growth related to indoor agriculture and mixed-use commercial/residential growth but have maintained conservative sales estimates as these markets are complex and still evolving. We'll continue to monitor and manage these and other factors, including local construction and employment and their impact on our Budget and operations.

## Budget Breakdown

Here is a brief overview of the 2019 Budget compared to the 2018 Budget (dollars in millions):

	2018	2019	Change
<b>Commodity</b>	\$435.1	\$448.1	\$13.0
<b>Public Goods</b>	55.0	61.3	6.3
<b>All Other O&amp;M</b>	545.7	571.7	26.0
<b>Sub Total</b>	<b>\$1,035.8</b>	<b>\$1,081.1</b>	<b>\$45.3</b>
<b>Debt Service</b>	181.1	186.1	5.0
<b>Capital and Reserve</b>	519.4	443.9	(75.5)
<b>Total Authorization</b>	<b>\$1,736.3</b>	<b>\$1,711.0</b>	<b>(\$25.3)</b>

*Totals may reflect minor rounding differences*

The 2019 Budget is projecting net income of \$61 million and a fixed charge ratio of 1.76.

The following sections provide details on the specific initiatives and programs funded in the 2019 Budget, grouped by Strategic Direction.

### Competitive Rates (SD-2)

The 2019 Budget reflects the 1% rate increase for commercial customers and no rate increase for residential customers as approved by the Board in July 2017. Energy supply commodity costs make up almost half of our total O&M budget. Staff has locked in prices for most of our expected energy requirements for 2019 to ensure cost and rate stability for customers. Only a small portion of budgeted purchases are exposed to short-term market price fluctuations.

We'll enter 2019 with approximately \$64 million in the Hydro Rate Stabilization Fund and \$32 million in the Rate Stabilization Fund. A transfer of \$5.7 million from the Rate Stabilization Fund is expected in December 2018 because of lower energy deliveries from Western Area Power Administration (WAPA). These reserve funds help us absorb higher energy costs when hydroelectric production is down and serve as a buffer against unexpected financial developments.

We recognize that delivering operational efficiency improvements is an important tool to help reduce upward pressure on rates, and there are numerous initiatives planned for 2019 to make our processes more efficient. We'll continue to drive performance improvements by focusing on optimization and operational excellence with measured outcomes, benefits realization and streamlined planning and prioritization processes.

A few examples of 2019 Budget investments to create efficiencies are:

- A new Project Performance Management tool to deliver better tracking and validation of outcomes against project goals.

- Workforce optimization within Power Generation and Grid Assets is a set of projects to implement new tools to help employees do their jobs more effectively, including a mobile application and mobile devices for managing planned work, and a scheduling tool to help schedule work more efficiently. The new mobile tool will give employees access to data and information in the field, including customer access information and work completed previously for a specific customer on an asset.
- Improving self-service options for customers through various communication channels such a web, interactive voice response (IVR) and the SMUD App.
- Implementation of an Energy Trading & Risk Management (ETRM) system. The ETRM provides real-time transparency of our commodity portfolio to Energy Trading, Energy Settlements and Commodity Risk Management departments. Benefits include:
  - Daily credit and exposure reports instead of weekly and monthly.
  - All transactions captured in one system.
  - Ability to employ a broader range of hedging strategies aimed at lowering overall hedging costs while not increasing our risk exposure.
  - Significant improvement in the timeliness of performance results and reports as compared to our commodity budget.
- Optimizing training strategies for line crews, achieving step testing efficiencies and the continued use of EVALS, a mobile training platform, to reduce manual processes within Energy Delivery, freeing up staff hours to redirect to higher value work.
- Focusing our procurement practices to align strategic purchasing decisions with spend management and supplier performance while addressing information security, cyber security and third-party risk.

In 2019 we will transition most of our residential customers to TOD Rates. Adoption of the TOD pricing structure is an important milestone, but we need to continue to evolve our pricing strategy. Key pricing initiatives that staff will work on in conjunction with the Board is the commercial rate restructure and revamp of net energy metering rates. Overhauling these rates will closer align our rate structures with our costs. In early 2019 we will present to the Board our proposed rates for 2020 and 2021 as part of the rate process.

### **Access to Credit Markets (SD-3)**

SMUD is in a strong financial position. Last year, S&P and Fitch upgraded SMUD's credit rating to AA. To maintain this high credit rating, we've set a strategic financial target to maintain strong operating cash flow. Although the Board has set a minimum target of cash flow cover (fixed charge) of 1.50 times operating cash flow, we aim to exceed that target to

support the higher level of proposed capital spending. Our forecasted 2019 operating cash flow cover is 1.76. This higher credit rating produces a lower cost of borrowing.

We'll start 2019 with lower cash balances with the anticipation of a new issuance in the first quarter of 2019. We're forecasting to end 2019 with an unrestricted cash balance of \$394 million, and a Rate Stabilization Fund balance of \$32 million, which combined, is more than the target minimum for cash reserves. We intend to issue new money in the amount of \$300 million in 2019 to replenish SMUD's cash balances after spending on the replacement or upgrade of aging infrastructure such as the Headquarters building, underground cable, Stations E, G and Franklin substation and the Power Control Center.

As always, the largest budget exposure for 2019 will be the effect a dry winter could have on hydroelectric generation and the hydropower SMUD receives from the Central Valley Project via WAPA. Due to lower than expected WAPA deliveries this year, we will be transferring funds out of the Rate Stabilization Fund. A dry year could force us to make unbudgeted market purchases, potentially reducing net income and cash flows. To reduce the negative impacts of an extremely dry year, we can enact a hydroelectric rate surcharge and will again ask to use the Rate Stabilization Fund to offset the purchase of any needed replacement power.

### **Reliability (SD-4)**

Keeping the lights on for our customers remains a top priority. The 2019 Budget funds the ongoing preventive maintenance and capital improvement projects needed to ensure high reliability of our distribution system. Our reliability is generally high, but we continue to see an increase in outage frequency and duration largely attributable to car/pole accidents and outages associated with trees outside of SMUD's right-of-way. However, our increased investments in 2017 and 2018 have delivered the projected improvements in reliability, and we're continuing to invest in reliability enhancements in 2019. We understand that any power outage is a negative experience for our customers and will continue efforts with proactive communications with customers during outages.

Some major efforts to address reliability in the 2019 Budget are:

- Programming and design work for our new Power Control Center (PCC) with construction activities expected to be complete by 2022. The PCC will be designed and built to meet all Federal Energy Regulatory Commission (FERC), North American Electric Reliability Corporation (NERC) and Western Electricity Coordinating Council (WECC) standards and guidelines. It will achieve at least a Tier 3 level of reliability to make sure SMUD's mission-critical functions are always up and running.
- Cable replacement – We plan to remove and replace approximately 267,000 circuit feet of existing cable. The expected outcome is to replace the worst performing cable, which will decrease future outages and repair costs.

- 69kV motorized switches – This project will automate twenty-four 69kV switches and provide remote operational capability and data acquisition. With more and more distributed energy resources (DER) interconnecting onto the distribution system, it is imperative to ensure our Operations staff have higher visibility and remote operational capability.
- Upgrades and expansion of the distribution system to serve load growth in downtown Sacramento including a 21kV extension, new communities such as Folsom Ranch and Cordova Hills, proposed developments in the northwest area of our service territory and new indoor cultivation facilities.
- Re-configure Hurley Bulk substation with the installation of a 230kV bus-tie circuit breaker to minimize negative impacts should an outage event occur at the substation.
- Upper American River Project (UARP) road repair and reconstruction following the 2017 storms.

Ongoing annual activities in the 2019 Budget include funds for the continued systematic evaluation of the condition of our assets to determine capital replacement plans and help prioritize maintenance work.

### **Customer Relations (SD-5), Outreach and Communication (SD-15)**

2019 is a big year for maintaining and expanding on our strong customer relations and brand loyalty. We expect to finish transitioning our residential customers to the new TOD Rate during the first half of the year. Our integrated and multi-lingual communications, marketing, education and outreach campaign aims to help customers understand how TOD could impact their bill and how best to mitigate those impacts. By focusing on empowering our customers to thrive in a new energy future, we'll foster stronger customer loyalty. We want customers to feel in control of their energy usage by reliably delivering energy, information and the tools they need in a way that is easy, responsive, personal and collaborative. Our overarching goal is to increase customer loyalty among all our customer segments as measured through our Value for What You Pay metric.

In support of our work to deliver value to our customers and community, our 2019 Budget includes funds for:

- Support of new pricing products including the TOD mass transition and Energy Assistance Program Rate (EAPR) restructure. 2019 is the first year of the new EAPR rates that aim to provide assistance to the customers who need it most.
- Providing a seamless customer interconnection experience for solar, EVs, battery storage and indoor cultivation by focusing on improving cycle times through communication and coordination.

- Implementation of a Sustainable Communities Strategy, which is a holistic strategy that defines SMUD's vision for creating a healthy community and region through workforce development, economic development, social equity, climate change leadership and environmental justice initiatives.
- Continuing our work in the community with our SMUD Cares campaign, Shine Awards, and work with the Powerhouse Science Center. New for 2019, we'll introduce a "Powerful Ideas" pilot, a new grant program to support teachers with ideas for engaging students in STEM education.
- Improving relationships with commercial developers through early action, closer coordination, removal of barriers and improved communication and education.
- Enhancing our meter-to-cash systems to accommodate more complex billing and payment options for our customers.

### **Safety (SD-6)**

SMUD continues to implement a plan to be a recognized leader in safety – Be Safe. Always. In 2019, we'll finalize and implement a 5-year Occupational Health and Safety Strategy that improves SMUD's safety culture and safety leadership and our organizational goal of a zero-incident culture.

Key safety commitments in the 2019 Budget are:

- Getting the basics right – A safety assessment and strategic foundation, along with ongoing program improvements and clearly defined roles and responsibilities.
- Safety basics – Safety leadership development, employee involvement, planning and strategy implementation.
- Safety improvements – Improved safety communications, formalized health and safety programs for areas like driver safety, incident investigations, risk assessments and safety culture (including the Safety for Life program).
- Safety evaluation and corrective action – Review of program effectiveness and development of corrective actions to ensure continuous safety improvements.
- Management review – review of safety programs as well as evaluation of SMUD Safety program achievements and improvement areas.

### **Environmental Leadership (SD-7)**

SMUD's commitment to the environment is evident in what we do every day. It's part of how we work, our community involvement, the power we deliver to our customers, the materials we buy and the decisions we make. We're always looking to reduce our impact on the

environment and conserve resources for future generations. These efforts benefit our employees, customers and most of all, our community.

A large focus next year is on reducing Sulfur Hexafluoride (SF6) usage, an extremely potent greenhouse gas, engineering teams are looking into the use of non-SF6 gas equipment at the different voltage levels utilized on SMUD's electric system. Staff will start reducing dependencies on SF6 gas equipment by utilizing vacuum interrupting technology on four 69kV breaker replacement projects at Hedge Substation. At higher voltage levels such as 115 and 230 kV, clean air technology is in development as SF6 remains the dominant gas used throughout the industry. SMUD engineering teams are working with the California Air Resources Board (CARB) and equipment manufacturers to come up with a manufacturing schedule that is acceptable to all parties and meets CARB's new proposed SF6 regulation to phase out the purchasing of new SF6 equipment by 2025. The maintenance teams will also be piloting a SF6 Management Tracking Program to track existing SF6 equipment, cylinder inventory and emission rates. The tool will be used to automate reporting to the California Air Resources Board and U.S. Environmental Protection Agency

Other environmental leadership commitments in the 2019 Budget are:

- Develop a strategy to coordinate, communicate and bolster the impact of existing and new SMUD sustainable community efforts. Our strategy includes identifying and aligning existing SMUD programs, services and operations related to sustainable community concepts, developing a Community Advisory Council and formalizing partnerships with community stakeholders.
- Completion of our Headquarters rehabilitation project, which incorporates energy efficiency features and targets LEED Gold certification.
- Establish environmental sustainability within our workforce and workplace to lower the environmental footprint of our business practices through energy use reduction, water conservation, waste minimization, GHG emission reduction, and Fleet Electrification through employee participation, metrics, communication and advocacy.
- Aggressively expanding our fleet electrification with a plan to purchase 12 hybrid electric-operated bucket trucks and 24 sedans, increasing our fleet pool to 13% electric by the end of 2019.
- Continuing the recreational improvements that we committed to under the new operating license for the UARP.

### **Employee Relations (SD-8)**

In 2019, we'll continue to focus on attracting and retaining the right talent at the right time. Many initiatives are planned to ensure we create a culture that values employees' ideas and fosters innovation, collaboration, inclusiveness and accountability. We'll continue to implement our strategic workforce planning, knowledge capture and succession planning

strategies based on data and insights into current and future workforce trends. The nature of the electric utility business is changing, which requires an evolving range of skill sets for our employees. Our Learning & Development programs will continue to evolve and adapt to give our employees the skills they need to succeed and help ensure SMUD succeeds.

Culture remains one of our top focuses and priorities. We'll conduct an employee engagement survey in 2019 and focus on specific cultural areas to enhance, develop and maintain an engaged, collaborative and agile workforce, based on the results of our 2018 culture survey. We'll also implement new designs in our physical workspaces to support a culture of collaboration and innovation.

We are making investments to assess, market and improve our employer brand. We are researching an investment in GlassDoor, an online job search company, and are looking to participate in the "Great Place to Work" and "National Intern Day" campaigns to broaden our reach and expand our talent pipeline. Interns are our workforce pipeline of the future, and in 2019 we will continue to focus on our existing internship programs. Departments will be encouraged to extend their interns where practical and hire more interns. We will create a seamless path for high-potential/high-performing interns to join SMUD in entry-level capacities.

We continue to evaluate our Total Rewards offerings to maintain the strength to attract and retain top talent. We are on track to offer a flexible cafeteria-style benefits plan for active employees, with an expected roll out in 2020 for unrepresented employees. This would allow employees to select benefits that meet their preferences and needs, including offerings for child care, elder care and insurance options for legal, travel and pet needs.

### **Resource Planning (SD-9)**

As you are aware, the Board just adopted a new Integrated Resource Plan (IRP). SMUD has always had an aggressive IRP that met or exceeded goals established by the State for renewable energy and the reduction of carbon emissions. Our new IRP, with updated targets, aims to go even further by providing our customers with a sustainable power supply, which will reduce our net long-term greenhouse gas emissions to net zero by 2040. This will be achieved through investment in vehicle and building electrification, energy efficiency, distributed resources, renewable energy plus additional investments in reliability.

Some efforts toward this goal included in the 2019 Budget are:

- Entering the CAISO Energy Imbalance Market in April 2019.
- Filing our IRP with the CEC. This includes the roll-out of new DER programs, especially electrification.
- Optimizing our Renewable Portfolio Standards to ensure we use the most cost-effective resources available to meet State requirements.

- Evaluating the benefit of additional managed services such as Energy Market & Portfolio Services, Energy Management Systems and Demand Response.
- A multi-pronged approach to encouraging EV adoption in SMUD territory by expanding charging infrastructure to reduce range anxiety through incentives for SMUD co-branded fast chargers, workplace and multi-family charging. We are also expanding support for medium/heavy-duty EVs.
- Transition from “Charge Free for 2 Years” program to a statewide “Point of Purchase” program.
- Expanding our building electrification offerings to look at neighborhood approaches and offer electrification options within our existing low-income programs. Some potential projects for 2019 include:
  - Working with local governments on establishing “reach” codes to adopt energy standards that are more stringent than statewide standards.
  - Incorporating heat pump water heater technologies into the North Franklin project.
  - Targeting homes and infrastructure within neighborhoods to gain efficiencies and address infrastructure needs.
- Leveraging opportunities with Volkswagen and the Sacramento Metropolitan Air Quality Management District to provide funds to increase charging for vehicles with low-income car share programs, examine pre-owned EVs for disadvantaged communities and helping our key community partners complete grant applications to accelerate electrification.
- Deploying customer energy storage offerings, such as virtual demand reduction, that position SMUD to better share energy storage benefits with customers as costs continue to decline.

### **Innovation (SD-10)**

One of our core values is delivering innovative solutions, products and services to our customers. 2019 will be a key year for DER projects, with a focus on energy storage. We'll investigate, research and demonstrate a variety of DER projects, including:

- Expanding our energy storage efforts with the introduction of 4 new pilots:
  - Residential and commercial “commitment to operate”: Targets existing storage customers by gaining commitment to operate their batteries with our TOD Rates.

- New residential construction
  - Residential and Commercial Thermal energy storage
  - Virtual demand reduction: Install battery storage where SMUD and commercial customers can both benefit.
- Continuing work with indoor cannabis growers to improve the energy efficiency of grow facilities and reduce grid impacts.
  - The Second Life Battery Storage project which demonstrates leveraging used EV batteries as an economic stationary storage resource.
  - Continuing to work with local developers to identify all-electric new home projects. These homes will have no natural gas service to the property which will save approximately one tonne of greenhouse gas per home per year.
  - Creating a SolarShares® program for developers.

### **Public Power Business Model (SD-11)**

We'll continue to guard local decision making and flexibility as we pursue innovative solutions that meet the needs of our customers and community.

The main focus areas for Government Affairs activities in the 2019 Budget are:

- Policy changes to mitigate wildfires and their associated costs.
- The post-2020 carbon policies and regulations, including Cap and Trade, Low Carbon Fuel Standard and SF6 equipment amendments.
- Implementation of new benchmarking and data filing requirements with the CEC and changes to the Renewable Portfolio Standard.
- Proposals to regionally expand the CAISO and the Energy Imbalance Market.
- Address issues relating to Community Choice Aggregation (CCA).
- Cybersecurity legislation.
- Federal policies on transportation.

**Economic Development (SD-13)**

SMUD promotes the economic vitality of our region and the growth of our customer base through strategic leadership and active participation in regional economic development partnerships. This includes supporting efforts to retain, recruit and grow commercial and industrial rate-paying customers, offering economic development rates and program incentives and providing a SMUD contracting program for certified small business customers. We're also helping build a strong innovation ecosystem through support for start-ups, entrepreneurs and business incubators.

SMUD helps make our region an attractive destination for businesses of all sizes through affordable rates and customized energy solutions.

Key initiatives in the 2019 Budget are:

- Implementing our Sustainable Communities Strategy.
- Providing strategic leadership for local economic development organizations and initiatives; implementing and promoting the new Economic Development Rate in conjunction with business attraction, retention and growth efforts.
- Continuing to promote SEED awareness and vendor participation through key partnerships, outreach and the launch of engagement tools including online program webinars; enhancement of the SEED vendor verification process and development and implementation of a key study to assess small business availability in, and surrounding SMUD's service area to inform a SEED outreach strategy.

**System Enhancement (SD-14)**

There are two SD-14 projects included in the 2019 Budget. The first project is Sacramento County's streetscape project at Fair Oaks Blvd between Landis Ave and Angeline Ave. The second project is Sutter Village which is in the city of Sacramento. Both projects will underground the existing overhead facilities that are within the project boundaries.

**Information Management and Security (SD-16)**

The effective and efficient use of technology is a strategic imperative for all our operations. The 2019 Budget funds technology solutions as well as the components of SD-16.

Key initiatives in the 2019 Budget are:

- Continuing work on grid modernization including ADMS and the Distributed Energy Resource Management System (DERMS), which lays the foundation for the transactive grid and enables integration of DERs such as solar, energy storage and EVs.

- Continuing to make Information Security a cornerstone of technology and having all employees on alert for increasing risks of cyberattacks on a 24/7 basis. We are expanding our program to improve our security posture in the areas of CIP, privacy, Operational Technology security and overall awareness.
- Application rationalization – We are developing a strategic view of applications with potential future savings to be achieved by retiring or consolidating applications used across SMUD as part of our efforts to update our enterprise application architecture.
- Enhancing our customers' experiences by implementing flexible and nimble payment technology, expanding digital channels and improving mobile applications, while also ensuring security for these transactions.

### **Enterprise Risk Management (SD-17)**

The 2019 Budget fully funds identified risk mitigation activities. SMUD's enterprise-level risks span the spectrum of operational and strategic business risks and include those associated with energy commodities, strategy, operations, natural hazards, political and regulatory issues, economics and the environment. Risk assessments and mitigation plans continue to be refined and improved by taking into account SMUD's changing internal and external risk environment and enhancing how SMUD addresses risks. Risk mitigations for significantly-high and high risks identified in the enterprise risk register will continue to be monitored closely to ensure risks are managed appropriately. Some key initiatives for 2019 include addressing aging infrastructure, wildfire risk mitigation, technology projects for grid transformation, creating a more agile workforce through mobility and managing the transition of customers to TOD Rates.

SMUD continues to work closely with all compliance and regulatory bodies to stay current with all compliance standards and reviews, and updates procedures and systems to ensure full compliance. SMUD recently adopted a standard internal controls framework for its Internal Controls Evaluation for NERC-related assessments. SMUD proactively monitors the direction of future standards and manages the strategic direction of our systems to provide safe and reliable energy to our customers.

Staff continues to update the enterprise risk portfolio and provide the Board with leading risk indicators as early warning signals that call for action. The overarching goal is to encourage the integration of risk-based thinking into decision-making at all levels. Enterprise Risk Management will continue to align with Internal Audit and other lines of defense through shared best practices.

### **Diversified Business (SD-19)**

Broadening and diversifying our products and services is a key value for SMUD. In 2019 we will pursue opportunities that benefit our customers and community, create economic value, achieve a balanced and diversified portfolio, leverage and optimize our strengths, assets and expertise, all while maintaining our financial health and reputation.

In 2019 we'll officially launch SMUD's Retail Sales & Consultation line of business where we'll begin to monetize our brand. This line of business monetizes SMUD strategies and lines of business that we have successfully delivered and provided to others as a product or service.

Some new net revenue areas in the 2019 Budget are:

- DER as a service to residential and commercial customers who are seeking onsite solar, battery storage or energy efficiency upgrades to provide more options from SMUD as a trusted energy advisor.
- Provide EV charging infrastructure as a service to commercial and multi-family customers to reduce barriers to EV adoption.
- Fleet electrification as a hassle-free service to allow commercial customers the flexibility and simplicity to convert their fleets to EVs.
- Participation in energy and power markets, selling transmission and ancillary services.
- Continued work on our Community Energy Services business for Valley Clean Energy and East Bay Community Energy.

2019 promises to be an exciting and transformational year for SMUD, and the budget includes funding for many industry-leading initiatives, such as TOD, ADMS, SolarShares® for developers and electrification, to position SMUD for future success. Staff will continue to update the Board on these issues throughout the upcoming year.

Respectfully submitted,



Arlen Orchard  
Chief Executive Officer and General Manager