Financial Statements

Report of Independent Auditors

December 31, 2025 and 2024

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SACRAMENTO MUNICIPAL UTILITY DISTRICT
TABLE OF CONTENTS
As of and for the Years Ended December 31, 2025 and 2024

SACRAMENTO MUNICIPAL UTILITY DISTRICT
TABLE OF CONTENTS - CONTINUED
As of and for the Years Ended December 31, 2024 and 2023

Independent Auditors' Report

To the Board of Directors of
Sacramento Municipal Utility District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Sacramento Municipal Utility District (SMUD), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise SMUD's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of SMUD as of December 31, 2025 and 2024, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards).* Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SMUD and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SMUD's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SMUD's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SMUD's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2026 on our consideration of SMUD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SMUD's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SMUD's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
March 6, 2026

Sacramento Municipal Utility District
Management's Discussion and Analysis - Unaudited
For the Years Ended December 31, 2025 and 2024

Using this Financial Report

This annual financial report for Sacramento Municipal Utility District (SMUD) consists of management's discussion and analysis and the financial statements, including notes to financial statements. The Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position and the Statements of Cash Flows.

SMUD maintains its accounting records in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission, except as it relates to accounting for contributions of utility property in aid of construction.

Overview of the Financial Statements

The following discussion and analysis of the financial performance of SMUD provides an overview of the financial activities for the years ended December 31, 2025 and 2024. This discussion and analysis should be read in conjunction with the financial statements, required supplementary information and accompanying notes, which follow this section.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses and Changes in Net Position report all SMUD's revenues and expenses for the periods shown.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing, and other cash uses such as payments for debt service and capital additions.

The Notes to Financial Statements provide additional detailed information to support the financial statements.

Required Supplementary Information provides additional detailed disclosures as required by the GASB.

Organization and Nature of Operations

SMUD was formed and operates under the State of California Municipal Utility District Act (Act). The Act gives SMUD the rights and powers to fix rates and charges for commodities or services it furnishes, and to incur indebtedness and issue bonds or other obligations. As a community-owned utility, SMUD is not subject to regulation or oversight by the California Public Utilities Commission.

SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, with a population of approximately 1.6 million – most of Sacramento County and small adjoining portions of Placer and Yolo Counties. The Board of Directors (Board) determines SMUD's rates.

SMUD's vision is to be the trusted partner with its customers and the community, providing innovative solutions to ensure energy affordability and reliability, improve the environment, reduce the region's carbon footprint, and enhance the vitality of the community. SMUD's business strategy focuses on serving its customers in a progressive, forward-looking manner, addressing current regulatory and legislative issues and potential competitive forces. This includes ensuring financial stability by establishing rates that provide acceptable cash coverage of all fixed charges, taking into consideration the impact of capital expenditures and other factors on cash flow.

2030 Zero Carbon Plan

In July 2020, the Board adopted a Climate Emergency Declaration to work toward an ambitious goal of delivering carbon neutral electricity by 2030 and indicating a strong commitment to finding additional opportunities to accelerate decarbonization in SMUD's energy supply. Building on the Board's Climate Emergency Declaration, SMUD's 2030 Clean Energy Vision calls for absolute zero carbon emission in its power supply by 2030.

In 2022, SMUD's 2030 Clean Energy Vision was translated into the 2030 Zero Carbon Plan (ZCP), the flexible road map to achieve a zero-carbon power supply by 2030. The plan guides elimination of Greenhouse Gas emissions from SMUD's power plants, development of new distributed energy resource business models, research of emerging grid-scale carbon-free technologies, and expansion of investments in proven clean technologies while ensuring all communities benefit from the plan.

In 2024, SMUD made significant progress on its 2030 ZCP, including outreach, customer engagement, new clean energy resources and extensive studies to ensure continued world-class reliability with rates among the lowest in California. SMUD brought nearly 90 megawatts (MW) of additional wind power online with Solano 4 Wind project increasing power production by about 10 times over the previous Phase 1. SMUD started civil construction for Country Acres Solar & Battery, a 344 MW solar and 172 MW 4-hour battery project.

In 2025, SMUD continued to make progress on its 2030 ZCP and have expanded programs that bring our customers along in its zero-carbon journey, highlighted by the Community Impact Plan which empowers residents, businesses, schools and nonprofits to participate in its clean energy transition. Additionally, SMUD opened the Sloughhouse Agrivoltaic Solar project – a 50 MW solar facility that generates enough clean, affordable energy to power 12,000 homes and reduces carbon emissions by 90,000 metric tons annually, equivalent to taking 19,000 cars off the road. SMUD also broke ground on the Country Acres Solar and Battery Storage project, our largest solar and storage project and a critical additional to our clean energy infrastructure. SMUD is also actively pursuing emerging technologies and exploring new market opportunities. The Extended Day-Ahead Market (EDAM) will support better integration of renewable resources. SMUD also completed the retooling of our most efficient combined cycle resource, Cosumnes Power Plant, providing greater operational flexibility while cutting greenhouse gas emissions by over 25% annually and saving money on natural gas costs. Additionally, SMUD and Calpine are continuing discussions on a Power Purchase Agreement for a carbon capture and storage project despite the Department of Energy (DOE) pulling back its previously awarded grant to partially fund the project.

Requests for Information

For more information about SMUD, visit our website at www.smud.org or contact us at customerservices@smud.org**.**

FINANCIAL POSITION

The following table summarizes the financial position as of December 31 (in millions).

CONDENSED STATEMENTS OF NET POSITION

	2025	2024	2023
Assets			
Electric Utility Plant - net	$ 4,809	$ 4,537	$ 4,207
Restricted and Designated Assets	376	373	239
Current Assets	1,578	1,371	1,250
Noncurrent Assets	1,878	1,840	1,625
Total Assets	8,641	8,121	7,321
Deferred Outflows of Resources	306	323	338
Total Assets and Deferred Outflows of Resources	$ 8,947	$ 8,444	$ 7,659
Liabilities			
Long-Term Debt - net	$ 3,243	$ 3,251	$ 2,921
Current Liabilities	673	606	701
Noncurrent Liabilities	562	638	530
Total Liabilities	4,478	4,495	4,152
Deferred Inflows of Resources	1,295	1,137	920
Net Position	3,174	2,812	2,587
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 8,947	$ 8,444	$ 7,659

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2025 Compared to 2024

Total assets in 2025 increased $520 million or 6.4% over 2024, primarily due to the following:

- An increase of $272 million in electric utility plant - net. See Capital Program below for further information.
- A $207 million increase in current assets is primarily due to $154 million increase in unrestricted cash, cash equivalents and investments -see the Statement of Cash flows for details and $32 million increase in inventories due to significant expenditures on transformers, switchgears and capacitors.
- A $38 million increase in noncurrent assets is primarily due to $75 million net increase in the regulatory costs for future recovery related to amortization of pension and Other Post-Employment Benefits (OPEB) deferred outflows, offset by $45 million decrease due to amortization of prepaid gas supply due to gas delivered.

2024 Compared to 2023

Total assets in 2024 increased $800 million or 10.9% over 2023, primarily due to the following:

- An increase of $330 million in electric utility plant - net. See Capital Program below for further information.
- A $134 million increase in restricted and designated assets primarily due to a $60 million deferral of 2024 operating revenues for creation of a commodity Rate Stabilization Fund (RSF) for future commodity price volatility, $20 million additional RSF transfer from operating revenue to fund Community Impact Plan (CIP) expenditures through 2028, and $41 million deferral of 2024 operating revenues for recognition in future years to offset one-time expenditures not identified in the annual budget, a $19 million RSF net transfer from revenues for net auction proceeds received and funds spent on Assembly Bill (AB) 32 programs, and a $9 million RSF transfer from revenue as a result of higher than budgeted energy deliveries from the Western Area Power Administration (WAPA), and, offset by $8 million Hydro Rate Stabilization Fund (HRSF) transfer to revenue for below average precipitation
- A $121 million increase in current assets is primarily due to $31 million increase in retail customers receivable due to higher load and rate, $21 million increase in wholesale and other receivable due to the DOE Grid Resilience and Innovative Partnerships program (GRIP) grant billing and Spent Nuclear Fuel billing, $29 million increase in inventories due to increased purchases for meters for GRIP grant and transformers.
- A $215 million increase in noncurrent assets is primarily due to $147 million increase in prepaid gas due to the restructuring the Northern California Energy Authority (NCEA) commodity prepay agreement and $70 million net increase in the regulatory costs for future recovery primarily related to amortization of pension and Other Post-Employment Benefits (OPEB) deferred outflows.

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2025 Compared to 2024

Total liabilities in 2025 decreased $17 million or 0.4% compared to 2024, primarily due to the following:

- A $67 million increase in current liabilities due primarily to $29 million increase in accounts payable and $22 million increase in current hedging derivative instruments.
- A $76 million decrease in non-current liabilities is primarily due to $99 million decrease in net pension liability based on the most recent actuarial results.

Deferred inflows of resources in 2025 increased $158 million or 13.9%, primarily due to a $125 million increase in regulatory credits related to current year amortization of the pension and OPEB deferred inflows and $54 million increase in deferred pension inflows.

Net position in 2025 increased $362 million or 12.9% over 2024 based on results of operations.

2024 Compared to 2023

Total liabilities in 2024 increased $343 million or 8.3% over 2023, primarily due to the following:

- A $330 million increase in long-term debt, net due to the $150 million refunding of outstanding commercial paper and issuing $100 million additional long-term bonds to fund capital projects for SMUD, and due to refunding NCEA bonds issuing an additional $114 million to fund increase in prepaid gas agreement.
- A decrease of $95 million in current liabilities due to a decrease of $150 million in the outstanding commercial paper due to refunding in 2024 and a $34 million decrease in value to the current hedging derivative instruments. This is offset by a $43 million increase in accounts payable due to the meters for the GRIP grant and large transformer received in December, a $28 million increase in current lease liability, and an $18 million increase in accrued salaries and compensated absences due to the implementation of GASB Statement No. 101, "Compensated Absences" that recorded a sick leave liability of $6 million at December 31, 2024.
- A $108 million increase in non-current liabilities is due to a $58 million increase in net pension and OPEB liability based on the most recent actuarial results, a $26 million increase in non-current lease liability and a $38 million increase in customer deposits for long-term interconnection agreements

Deferred inflows of resources in 2024 increased $217 million or 23.6%, primarily due to a $236 million increase to regulatory credits related to the new commodity RSF, CIP RSF, WAPA RSF, pension and OPEB deferred costs.

Net position in 2024 increased $225 million or 8.7% over 2023 based on results of operations.

RESULTS OF OPERATIONS

The following table summarizes the operating results for the years ended December 31 (in millions).

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

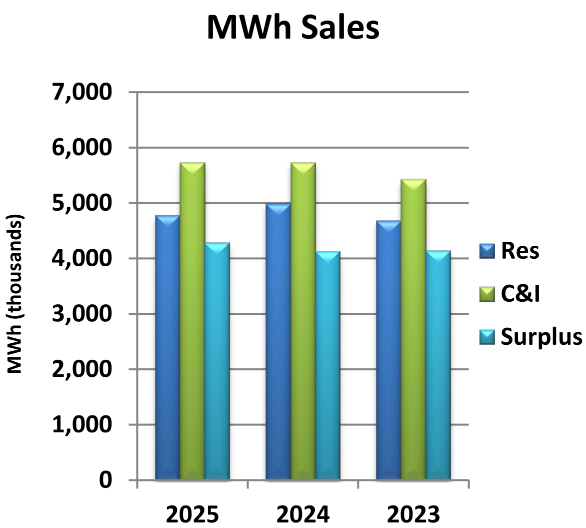
	2025	2024	2023
Operating revenues	$ 2,121	$ 1,962	$ 1,931
Operating expenses	(1,799)	(1,804)	(1,748)
Operating income	322	158	183
Other revenues/(expenses)	140	169	136
Interest charges	(100)	(102)	(99)
Change in net position	362	225	220
Net position - beginning of year	2,812	2,587	2,367
Net position - end of year	$ 3,174	$ 2,812	$ 2,587

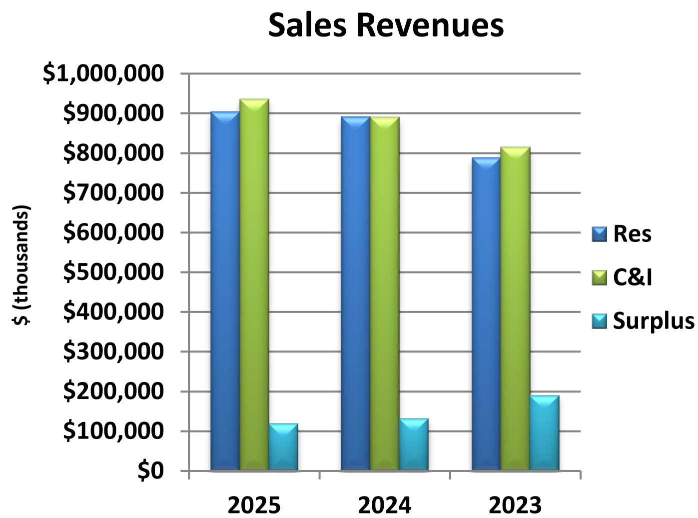
2025 Compared to 2024

OPERATING REVENUES

Total operating revenues were $2,121 million for 2025, an increase of $159 million or 8.1% over 2024 operating revenues. The residential megawatt hour (MWh) sales decreased 4.3% and sales revenues increased 1.4% compared to 2024. The commercial & industrial MWh sales were virtually flat, decreasing 0.1% and sales revenues increased 5.1% compared to 2024.

The following charts show the MWh sales, and sales revenue for the past three years by surplus energy sales (Surplus), commercial, industrial, and other (C&I), and residential (Res) customers:





Wholesale revenues are comprised of both surplus gas and energy sales which are part of the operational strategy in managing fuel and energy costs. In 2025, energy sales were lower by $13 million as compared to 2024 due to lower energy prices in the market. Surplus gas sales were lower than 2024 by $9 million due to lower fuel prices.

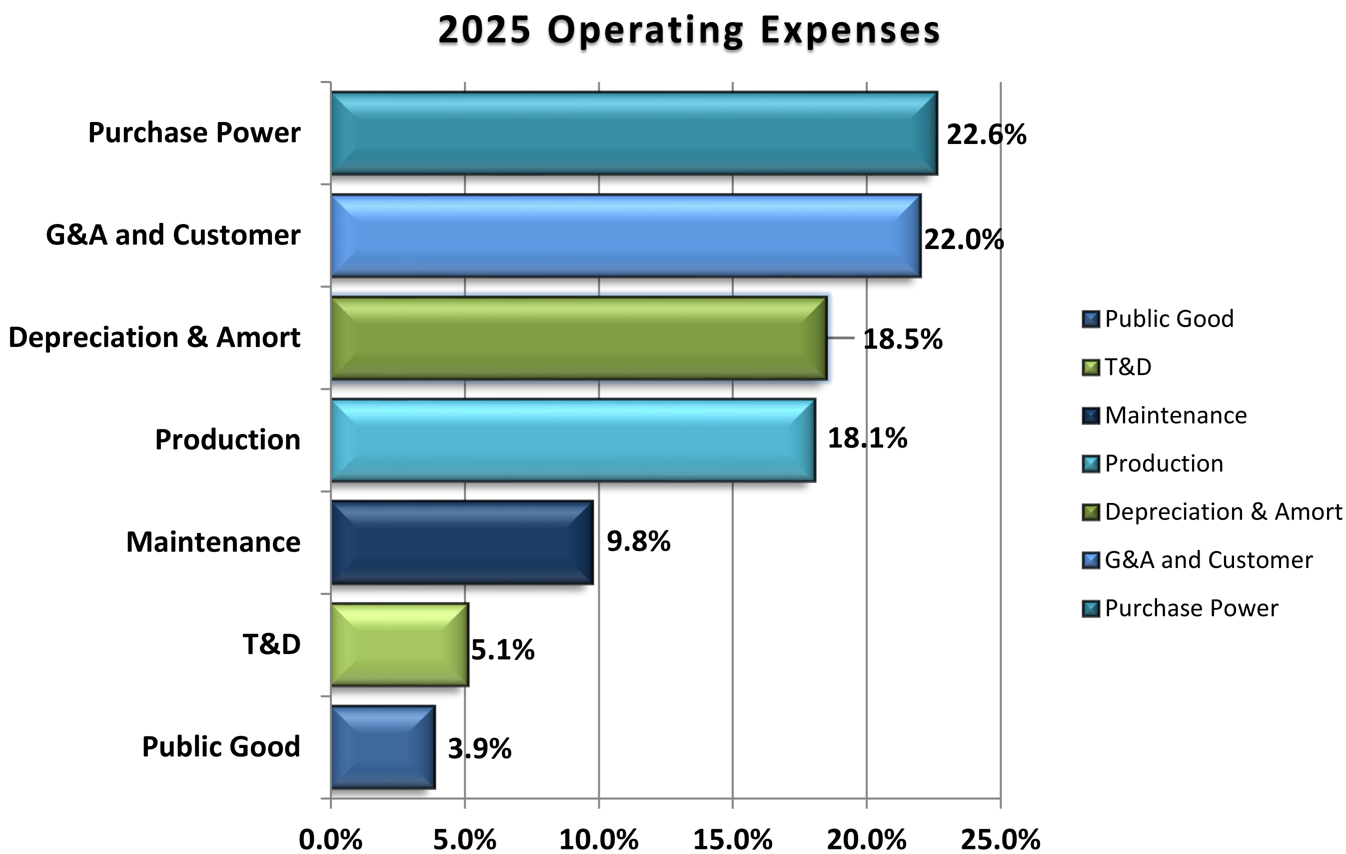
OPERATING EXPENSES

Total operating expenses were $1,799 million for 2025, a decrease of $5 million or 0.3% compared to 2024.

- Production decreased $36 million primarily due to $32 million reduction in gas turbine fuel due to a combination of lower average fuel price and lower usage.

- Administrative, general and customer increased by $12 million due to higher customer program participation, and transmission and distribution increased by $7 million due to a higher need for distribution and substation operations.

The following chart illustrates 2025 operating expenses by expense classification and percentage of the total:



OTHER REVENUES

Total other revenues (net) were $140 million for 2025, a decrease of $29 million or 17.2% compared to 2024. The most significant items in other revenues (net) include $95 million miscellaneous non-operating income, comprised primarily of an Inflation and Reduction Act payment for a clean energy project, grant proceeds, and revenue from Community Choice Aggregators, and $49 million interest income.

2024 Compared to 2023

RESULTS OF OPERATIONS

- Total operating revenues were $1,962 million for 2024, an increase of $31 million or 1.6% over 2023 operating revenues. The residential megawatt hour (MWh) sales decreased 6.7% and sales revenues increased 13.0% compared to 2023, primarily due to hotter weather during the summer in 2024. The commercial & industrial MWh sales increased 5.6% and sales revenues increased 9.3% compared to 2023, primarily due to replacing the sales from a major commercial customer that was lost in 2023.

- Wholesale revenues are comprised of both surplus gas and energy sales which are part of the operational strategy in managing fuel and energy costs. In 2024, energy sales were lower by $59 million as compared to 2023 due to lower energy prices in the market. Surplus gas sales were lower than 2023 by $24 million primarily due to gas prices were lower due to increased gas storage nationwide.

Total operating expenses were $1,804 million for 2024, an increase of $56 million or 3.2% over 2023.

- Purchased power decreased by $42 million primarily due to the average market price was lower due to the increased gas storage that led to lower reduced power prices as well as additional solar, wind and energy storage batteries that came on-line in California that help lower market prices.

- General, administrative and customer increased by $79 million primarily due to bond issuance cost related to the current year bond refunding and a large adjustment related to the pension actuarial results in the current year.

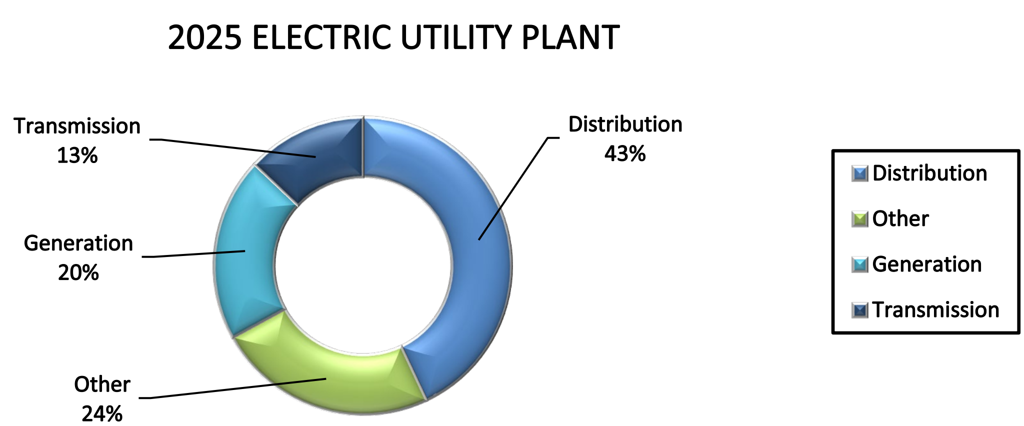
Total other revenues (net) were $169 million for 2024, an increase of $33 million or 24.1% over 2023. The increase is due to $7 million higher interest earnings on investments and $6 million increase in investment revenue related to gas swaps. The other income - net includes one-time income receipts of $89 million of insurance recovery payment of Cosumnes Power Plant (CPP) outage claim, $7 million settlement claim for Substation fire and $5 million grant revenues.

CAPITAL PROGRAM

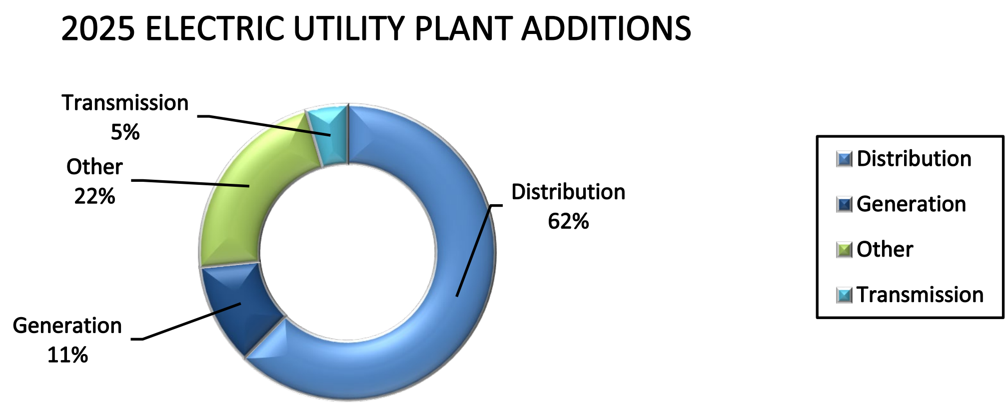
SMUD's electric utility plant includes production, transmission and distribution, and general plant facilities. The following table summarizes the balance of the electric utility plant as of December 31 (in millions).

	2025	2024	2023
Electric Utility Plant	$ 8,894	$ 8,358	$ 7,853
Accumulated Depreciation and Amortization	(4,085)	(3,821)	(3,645)
Electric Utility Plant - Net	$ 4,809	$ 4,537	$ 4,208

The following chart shows the breakdown of 2025 Electric Utility Plant - net by major plant category:



The following chart shows the breakdown of 2025 Electric Utility Plant capitalized additions by major plant category:



Details of SMUD's electric utility plant asset balances and activity are included in Note 4 in the Notes to Financial Statements. SMUD's capital program includes investment in generation, transmission, distribution, buildings, vehicles, technology, and other assets critical to meeting the energy needs of its customers. Capital investments are financed with revenues from operations, bond proceeds, investment income and cash on hand.

The following table shows actual capital program expenditures for the last two years and budgeted capital expenditures for 2026 (in millions).

	Budget 2026	Actual 2025	Actual 2024
Capital Program:			
Transmission & Distribution	$ 290	$ 301	$ 215
Generation	124	144	151
Other	256	149	118
Total	$ 670	$ 594	$ 484

In 2025 and 2024, SMUD's actual expenditures included the official opening of the Sloughhouse Agrivoltaic Solar project, Solano 4 wind project, breaking ground on Country Acres Solar and Battery storage project, retooling of the Cosumnes Power Plant, significant investment in transformers, switchgears and capacitors, Station J design, Elverta (El Rio) Substation expansion, Station G additional bank, and replacement of major portions of our cable and pole infrastructure.

Major capital expenditures planned in 2026 include Station J Substation, El Rio, Country Acres solar and storage project, new Administrative Operations Building, upgrade the Enterprise Resource Planning (ERP) software to S/4HANA, and Grid Edge Intelligence and Outage Management System replacement.

LIQUIDITY AND CAPITAL RESOURCES

SMUD maintains a strong liquidity position by setting a minimum number of days cash on hand and managing a $400 million commercial paper program. The current days cash threshold is 150 days, the minimum amount of cash on hand before triggering a new debt or commercial paper issuance to replenish cash balances. As of December 31, 2025 and 2024, the days cash on hand was 225 days and 185 days, respectively. The commercial paper program allows for short-term borrowing when needed in lieu of issuing long-term debt, similar to a credit card or line of credit. As of December 31, 2025 and 2024, SMUD did not have any commercial paper notes outstanding. A strong liquidity position is important in demonstrating to investors and rating agencies that SMUD can withstand various financial stresses.

In addition, SMUD targets strong financial metrics in cash flow coverage with its fixed charge ratio. The Board sets a minimum fixed charge of 1.50 times operating cash flow; however, SMUD aims for a minimum of 1.70 as a standard. On December 31, 2025 and 2024, the fixed charge ratio was 3.71 and 2.83, respectively. This higher performance standard has proven valuable during financially challenging years of uncertainty stemming from the pandemic and higher commodity costs.

Debt service coverage for long-term debt was 4.18 times and 3.05 times in 2025 and 2024, respectively. SMUD's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios of at least 1.40 times, certain other financial ratios, stipulated minimum funding of revenue bond reserves, and various other requirements including a rate covenant to raise rates to maintain minimum debt service coverage. SMUD is in compliance with all debt covenants.

FINANCING ACTIVITIES

In May 2025, SMUD Financing Authority (SFA), a component unit of SMUD, defeased $60.5 million of bonds prior to final maturity, reducing debt service costs by $13.8 million per year on average from 2026 to 2030.

In June 2025, SMUD issued three separate revenue and revenue refunding bonds totaling $300 million. The purpose of these transactions was to refund the fixed rate debt associated with 2019 Series B, refund the outstanding commercial paper and reimburse SMUD for capital expenses previously incurred.

CREDIT RATINGS

SMUD proactively manages its strong financial position to maintain high credit ratings. These strong credit ratings improve access to credit markets and result in a lower cost of borrowing. Both quantitative (financial strength) and qualitative (business and operating characteristics) factors are considered by the credit rating agencies in establishing a company's credit rating. In February 2024, Moody's upgraded SMUD's rating to Aa2 from Aa3 changing SMUD's financial outlook from positive to stable. As of December 31, 2025, SMUD's bonds had an underlying rating of "AA" from Standard & Poor's, "AA" from Fitch, and "Aa2" from Moody's. In March 2025, Standard & Poor's put SMUD and several other California utilities on Negative Outlook due to wildfire risk concerns.

COMPETITIVE RATES

The Board has independent authority to set SMUD's rates and charges. Changes in rates require a public hearing and formal action by the Board. SMUD has committed to its customers in keeping rates low while continuing to deliver safe, reliable, and environmentally responsible power and the products and services they value.

In 2023, the Board approved the 2024 and 2025 rate proposals including four rate increases of 2.75%, one each in January 2024, May 2024, January 2025 and May 2025, which will apply to all customer classes. Even with these increases, SMUD's rates continue to remain amongst the lowest in the state. In 2024, the average system rate was 52% below the average rate of the nearest investor-owned utility. This ensures the necessary revenue to meet SMUD's financial obligations, key financial metrics, and delivery of SMUD's 2030 ZCP.

SMUD has continued to progress on its Grant Strategy Framework, which will best position SMUD to secure sources of funding to deliver on the 2030 ZCP and keep its rates low. In 2025, SMUD secured approximately $41 million in grant funding, including significant grants with California Energy Resilience and Reliance Infrastructure (CERRI) and Department of Transportation Charging & Fueling Infrastructure. Despite the cancellation of the Department of Energy $50 million GRIP grant for our Clean Power Connected Cities Project, we were still able to bill and receive approximately $33 million.

ENERGY RISK MANAGEMENT

SMUD's commodity costs have prices locked in for most of its expected energy requirements to ensure cost and rate stability for customers. Only a small portion of budgeted energy purchases are exposed to short-term market price fluctuations – a beneficial practice, especially during the price volatility currently reflected in California power and energy prices.

SMUD has mitigation measures in place for higher commodity costs due to reduced hydroelectric production that will lead to higher purchased power. As of December 31, 2025, the HRSF was $81 million and $158 million in the RSF, net of Low Carbon Fuel Standard and Cap and Trade funds. These reserve funds help absorb higher energy costs when hydroelectric production is down or when there are unexpected increases in commodity costs and serve as a buffer against unexpected financial developments.

DECOMMISSIONING

SMUD has made significant progress toward completing the Decommissioning Plan for its Rancho Seco nuclear facility, which was shut down in 1989. The plan consists of two phases that allow SMUD to terminate its possession-only license. Phase I of the decommissioning was completed at the end of 2008. Phase II consists of a storage period for the Class B and Class C radioactive waste overseen by the existing facility staff, followed by shipment of the waste for disposal, and then complete termination of the possession-only license. SMUD also established and funded an external decommissioning trust fund as part of its assurance to the Nuclear Regulatory Commission (NRC) to pay for the cost of decommissioning. Shipment of the previously stored Class B and Class C radioactive waste was completed in November 2014 to a low-level radioactive waste facility located in Andrews, Texas. The remaining Phase II decommissioning activities required for termination of the possession-only license commenced in 2015. In September 2017, SMUD formally requested the termination of the possession-only license and termination of the possession-only license was completed in 2018.

As part of the Decommissioning Plan, the nuclear fuel and Greater Than Class C (GTCC) radioactive waste is being stored in a dry storage facility constructed by SMUD and licensed separately by the NRC. The DOE, under the Nuclear Waste Policy Act of 1982, was responsible for permanent disposal of used nuclear fuel and GTCC radioactive waste and SMUD contracted with the DOE for removal and disposal of that waste. The DOE has yet to fulfill its contractual obligation to provide a permanent waste disposal site. SMUD has filed a series of successful lawsuits against the federal government for recovery of the past spent fuel costs, with recoveries to date of more than $139 million. SMUD will continue to pursue cost recovery claims until the DOE fulfills its obligation.

The total Accrued Decommissioning balance in the Statements of Net Position, including Rancho Seco and other ARO's, amounted to $133 million and $119 million as of December 31, 2025 and 2024, respectively.

SIGNIFICANT ACCOUNTING POLICIES

In accordance with GASB No. 62, the Board has taken regulatory actions for ratemaking that result in the deferral of expense and revenue recognition. These actions result in regulatory assets and liabilities. SMUD has regulatory assets that cover costs related to decommissioning, derivative financial instruments, debt issuance costs, pension costs, and OPEB costs. As of December 31, 2025 and 2024, total regulatory assets were $1,095 million and $1,002 million, respectively. SMUD also has regulatory credits that cover costs related to contributions in aid of construction, the RSF and HRSF, Energy Assistance Program Rate reserves, SB-1, grant revenues, and Transmission Agency of Northern California operations costs. As of December 31, 2025 and 2024, total regulatory credits were $1,120 million and $995 million, respectively.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
STATEMENTS OF NET POSITION

	December 31, 2025	December 31, 2024
	(thousands of dollars)	
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 8,118,848	$ 7,829,525
Less accumulated depreciation and amortization	(4,084,720)	(3,820,728)
Plant in service - net	4,034,128	4,008,797
Construction work in progress	775,338	527,739
Total electric utility plant - net	4,809,466	4,536,536
RESTRICTED AND DESIGNATED ASSETS		
Revenue bond and debt service reserves	112,564	120,514
Nuclear decommissioning trust fund	10,327	9,909
Rate stabilization fund	350,173	345,389
Escrow fund	19,405	14,027
Collateral fund	8,128	10,771
Insurance captive fund	26,220	25,447
Other funds	11,435	19,921
Less current portion	(162,678)	(172,789)
Total restricted and designated assets	375,574	373,189
CURRENT ASSETS		
Unrestricted cash and cash equivalents	427,674	338,872
Unrestricted investments	273,495	208,259
Restricted and designated cash and cash equivalents	56,431	65,930
Restricted and designated investments	106,247	106,859
Receivables - net:		
Retail customers	219,968	209,590
Wholesale and other	89,245	86,417
Regulatory costs to be recovered within one year	97,466	78,921
Hedging derivative instruments maturing within one year	15,591	21,816
Inventories	206,322	174,165
Prepaid gas to be delivered within one year	45,430	41,389
Prepayments and other	40,415	38,769
Total current assets	1,578,284	1,370,987
NONCURRENT ASSETS		
Regulatory costs for future recovery	997,629	922,992
Prepaid gas	694,490	739,920
Hedging derivative instruments	31,065	32,329
Credit support collateral deposits	20,750	20,750
Due from affiliated entity	40,681	35,490
Investment in TANC	42,920	40,051
Prepayments and other	50,308	48,588
Total noncurrent assets	1,877,843	1,840,120
TOTAL ASSETS	8,641,167	8,120,832
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivative instruments	64,807	40,229
Deferred pension outflows	150,769	194,134
Deferred other postemployment benefits outflows	64,571	58,215
Deferred asset retirement obligations outflows	282	1,195
Unamortized bond losses	25,598	29,801
TOTAL DEFERRED OUTFLOWS OF RESOURCES	306,027	323,574
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 8,947,194	$ 8,444,406

The accompanying notes are an integral part of these financial statements.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
STATEMENTS OF NET POSITION

	December 31, 2025	December 31, 2024
	(thousands of dollars)	
LIABILITIES		
LONG-TERM DEBT - net	$ 3,242,451	$ 3,251,259
CURRENT LIABILITIES		
Accounts payable	199,848	170,469
Purchased power payable	45,858	38,363
Long-term debt due within one year	130,825	138,065
Accrued decommissioning	8,661	7,471
Interest payable	47,898	48,728
Accrued salaries and compensated absences	84,816	80,676
Other derivative instruments maturing within one year	1,112	381
Hedging derivative instruments maturing within one year	51,437	29,286
Advanced payments on construction	46,215	46,201
Lease liability	27,120	26,495
Customer deposits and other	29,214	19,912
Total current liabilities	673,004	606,047
NONCURRENT LIABILITIES		
Net pension liability	209,662	308,414
Net other postemployment benefits liability	48,457	34,132
Accrued decommissioning	124,221	111,340
Hedging derivative instruments	13,370	10,943
Advanced payments on construction	65,603	37,985
Self insurance and other	100,862	135,089
Total noncurrent liabilities	562,175	637,903
TOTAL LIABILITIES	4,477,630	4,495,209
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivative instruments	46,656	54,145
Regulatory credits	1,119,507	994,763
Deferred pension inflows	62,880	8,416
Deferred other postemployment benefits inflows	16,385	23,556
Deferred lease inflows	15,684	16,434
Unamortized bond gains	30,463	36,102
Unearned revenue	3,448	3,661
TOTAL DEFERRED INFLOWS OF RESOURCES	1,295,023	1,137,077
NET POSITION		
Net investment in capital assets	2,131,651	1,843,190
Restricted:		
Revenue bond and debt service	64,390	71,726
Other funds	65,076	69,633
Unrestricted	913,424	827,571
TOTAL NET POSITION	3,174,541	2,812,120
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 8,947,194	$ 8,444,406

The accompanying notes are an integral part of these financial statements.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended December 31, 2025	Year Ended December 31, 2024
	(thousands of dollars)	
OPERATING REVENUES		
Residential	$ 903,743	$ 891,583
Commercial and industrial	926,696	881,574
Street lighting and other	56,935	54,813
Wholesale	200,717	223,204
Senate Bill - 1 revenue deferral	1,493	1,042
AB-32 revenue	22,444	35,233
LCFS revenue	8,502	7,910
Rate stabilization fund transfers	216	(133,258)
Total operating revenues	2,120,746	1,962,101
OPERATING EXPENSES		
Operations:		
Purchased power	406,885	409,510
Production	324,751	361,068
Transmission and distribution	92,082	85,496
Administrative, general and customer	397,317	384,892
Public good	69,550	72,086
Maintenance	175,592	171,728
Depreciation and amortization	283,108	273,258
Regulatory amounts collected in rates	49,616	45,920
Total operating expenses	1,798,901	1,803,958
OPERATING INCOME	321,845	158,143
NON-OPERATING REVENUES AND EXPENSES		
Other revenues and (expenses):		
Interest income	48,616	45,481
Investment income (expense) - net	(2,876)	(5,173)
Other income - net	94,709	128,786
Total other revenues and (expenses)	140,449	169,094
Interest charges:		
Interest on debt	99,873	101,816
Total interest charges	99,873	101,816
Total non-operating revenues and (expenses)	40,576	67,278
CHANGE IN NET POSITION	362,421	225,421
NET POSITION - BEGINNING OF YEAR	2,812,120	2,586,699
NET POSITION - END OF YEAR	$ 3,174,541	$ 2,812,120

The accompanying notes are an integral part of these financial statements.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2025	2024
	(thousands of dollars)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,875,462	$ 1,789,294
Receipts from surplus power and gas sales	209,608	219,745
Other receipts	115,854	98,157
Payments to employees - payroll and other	(448,941)	(418,361)
Payments for wholesale power and gas purchases	(522,909)	(549,103)
Payments to vendors/others	(591,781)	(520,700)
Net cash provided by operating activities	637,293	619,032
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond issuance, net of premium	-0-	192,318
Repayment of debt	(33,750)	(25,530)
Payments for prepaid gas supply	-0-	(187,894)
Proceeds from insurance settlements	-0-	88,943
Receipts from federal and state grants	18,702	3,026
Interest on debt	(38,250)	(30,912)
Payments for debt issue costs	-0-	(9,628)
Net cash provided by (used in) noncapital financing activities	(53,298)	30,323
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction expenditures	(555,427)	(461,647)
Contributions in aid of construction	25,531	29,514
Net proceeds from bond issues	331,574	752,609
Repayments and refundings of debt	(264,820)	(547,705)
Issuance of commercial paper	75,000	-0-
Repayments of commercial paper	(75,000)	(150,000)
Proceeds from insurance settlements	-0-	7,515
Other receipts	132,426	7,863
Interest on debt	(111,079)	(147,831)
Lease and other receipts/payments - net	(41,404)	(36,851)
Net cash used in capital and related financing activities	(483,199)	(546,533)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and maturities of securities	960,902	635,879
Purchases of securities	(1,021,837)	(656,952)
Proceeds from termination of prepaid gas contracts	-0-	2,565
Interest and dividends received	47,534	46,433
Investment revenue/expenses - net	(2,847)	(5,140)
Net cash provided by (used in) investing activities	(16,248)	22,785
Net increase in cash and cash equivalents	84,548	125,607
Cash and cash equivalents at the beginning of the year	416,831	291,224
Cash and cash equivalents at the end of the year	$ 501,379	$ 416,831
Cash and cash equivalents included in:		
Unrestricted cash and cash equivalents	$ 427,674	$ 338,872
Restricted and designated cash and cash equivalents	56,431	65,930
Restricted and designated assets (a component of the total of $375,574 and $373,189 at December 31, 2025 and 2024, respectively)	17,274	12,029
Cash and cash equivalents at the end of the year	$ 501,379	$ 416,831

The accompanying notes are an integral part of these financial statements.

SACRAMENTO MUNICIPAL UTILITY DISTRICT
SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of the statements of cash flows operating activities to operating income as follows:

	Year Ended December 31,	
	2025	2024
	(thousands of dollars)	
Operating income	$ 321,845	$ 158,147
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	283,108	273,258
Regulatory amortization	49,616	45,920
Other amortizations	36,607	40,060
Revenue deferred to (recognized from) regulatory credits - net	(1,708)	132,216
Other (receipts) payments - net	(32,447)	151,423
Changes in operating assets, deferred outflows, liabilities and deferred inflows:		
Receivables - retail customers, wholesale and other	21,834	(47,057)
Inventories, prepayments and other	(49,349)	(220,021)
Deferred outflows of resources	37,009	(7,154)
Payables and accruals	15,026	65,153
Decommissioning	(6,991)	(6,512)
Net pension liability	(98,752)	49,404
Net other postemployment benefits liability	14,325	8,798
Deferred inflows of resources	47,170	(24,603)
Net cash provided by operating activities	$ 637,293	$ 619,032

The supplemental disclosure of noncash financing and investing activities is as follows:

	Year Ended December 31,	
	2025	2024
	(thousands of dollars)	
Amortization of debt related (expenses) and premiums - net	$ 39,945	$ 45,129
Write-off unamortized premium and loss	3,891	-0-
Gain on debt extinguishment and refundings	3,851	(23,975)
Unrealized holding gain (loss)	828	906
Change in valuation of derivative financial instruments	(32,878)	53,799
Amortization of revenue for assets contributed in aid of construction	26,685	19,974
Construction expenditures included in accounts payable	106,312	83,461
Gain (Loss) on sale and retirement of assets - net	20,838	(270)
Write-off capital projects and preliminary surveys	(31,697)	(6,620)

The accompanying notes are an integral part of these financial statements.

Sacramento Municipal Utility District
Notes to Financial Statements
As of and for the Years Ended December 31, 2025, and 2024

NOTE 1. ORGANIZATION

The Sacramento Municipal Utility District (SMUD) was formed and operates under the State of California Municipal Utility District Act (Act). The Act gives SMUD the rights and powers to fix rates and charges for commodities or services it furnishes, and to incur indebtedness and issue bonds or other obligations. As a community-owned utility, SMUD is not subject to regulation or oversight by the California Public Utilities Commission.

SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and small adjoining portions of Placer and Yolo Counties. The Board of Directors (Board) determines SMUD's rates.

SMUD is exempt from payment of federal and state income taxes and, under most circumstances, real and personal property taxes. In addition, SMUD is responsible for the payment of a portion of the property taxes associated with its real property in California that lies outside of its service area.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. SMUD's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC). SMUD's Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Electric revenues and costs that are directly related to the acquisition, generation, transmission, and distribution of electricity are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Financial Reporting Entity. These Financial Statements include SMUD and its component units. Although the component units are legally separate from SMUD, they are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. All significant inter-component transactions have been eliminated in consolidation.

Component Units. The component units include the Sacramento Municipal Utility Financing Authority (SFA), the Northern California Gas Authority No. 1 (NCGA) and the Northern California Energy Authority (NCEA). The primary purpose of SFA is to own and operate electric utility plants that supply power to SMUD. On October 1, 2025, SMUD entered into Assignment and Assumption Agreements (Agreements) with SFA. The Agreements transfer the assets and obligations, including ownership of the Cosumnes Power Plant, Carson Power Plant, Procter and Gamble Power Plant, Campbell Power Plant, and McClellan Power Plant (assigned Power Plants) to SMUD as of October 1, 2025 (see Note 3). The primary purpose of NCGA is to prepay for natural gas to sell to SMUD. The primary purpose of NCEA is to prepay for commodities in the form of natural gas and electricity to sell to SMUD. SMUD's Board comprises the Commissions that govern these entities (see Note 6).

Plant in Service. Capital assets are generally defined by SMUD as tangible assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of two years. The cost of additions to Plant in Service and replacement property units is capitalized. Repair and maintenance costs are charged to expense when incurred. When SMUD retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Costs of removal, if any, are charged to Plant in Service and depreciated over the estimated life of the asset at the time they are incurred. Salvage value, if any, is credited to Other Income when received. SMUD generally computes depreciation on Plant in Service on a straight-line, service-life basis. The average annual composite depreciation rates for 2025 and 2024 was 3.1 percent. Depreciation is calculated using the following estimated lives:

Generation	4 to 80 years
Transmission and Distribution	4 to 50 years
Gas Pipeline	10 to 80 years
General	5 to 60 years

Investment in Joint Powers Authority (JPA). SMUD's investment in the Transmission Agency of Northern California (TANC) is accounted for under the equity method of accounting. SMUD's share of the TANC debt service costs and operations and maintenance expense, inclusive of depreciation, is included in Transmission and Distribution expense in the Statements of Revenues, Expenses and Changes in Net Position (see Note 5).

SMUD's investment in the Balancing Authority of Northern California (BANC) is accounted for under the equity method of accounting. SMUD's share of the BANC operations and maintenance expense is included in Transmission and Distribution expense in the Statements of Revenues, Expenses and Changes in Net Position (see Note 5).

Leases. Leases are contracts that convey control of the right to use another entity's nonfinancial asset as specified for a period of time in an exchange or exchange-like transaction without the transfer of ownership of the asset. The lease term is the period of time where there is a noncancellable right to use the underlying asset (see Note 4).

For lessor contracts, lease receivables and deferred inflows of resources are reported at present value using SMUD's incremental borrowing rate on the Statements of Net Position. The amortization of the discount for lessor contracts is recorded as Lease receivable for SMUD on the Statements of Net Position with the offset to interest income in Interest and other income on the Statements of Revenue, Expenses and Change in Net Position (see Note 4).

For lessee contracts, lease assets and liabilities are reported at present value using SMUD's incremental borrowing rate on the Statements of Net Position. The lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset. The amortization of the discount for lessee contracts is recorded as Interest payable on the Statements of Net Position with the offset to Lease interest expense for SMUD on the Statements of Revenue, Expenses and Change in Net Position (see Note 4).

Subscription Assets. Subscription-based information technology arrangements (SBITAs) provide governments with access to vendors' information technology (IT) software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible capital assets. The subscription term is the period of time where there is a noncancellable right to use the underlying IT assets (see Note 4).

For SBITA contracts, subscription assets and liabilities are reported at present value using SMUD's incremental borrowing rate on the Statements of Net Position. The subscription assets are amortized over the shorter of the lease term or the useful life of the underlying IT assets. The amortization of the discount for SBITA contracts is recorded as Interest payable on the Statements of Net Position with the offset to SBITA interest expense for SMUD on the Statements of Revenue, Expenses and Change in Net Position (see Note 4).

Restricted and Designated Assets. Cash, cash equivalents, and investments, which are restricted by regulation or under terms of certain agreements for payments to third parties are included as restricted assets. Restricted assets include Revenue bond and debt service reserves, Nuclear decommissioning trust fund, Escrow fund, Collateral fund, Insurance captive fund and Other funds. Board actions limiting the use of such funds are included as designated assets. Designated assets include the Rate stabilization fund and Other funds. When SMUD restricts or designates funds for a specific purpose, and restricted and designated and unrestricted resources are available for use, it is SMUD's policy to use restricted and designated resources first, then unrestricted resources as they are needed.

Nuclear Decommissioning Trust Fund. SMUD made annual contributions to its Nuclear Decommissioning Trust Fund (Trust Fund) through 2008 to cover the cost of its primary decommissioning activities associated with the Rancho Seco facility. Primary decommissioning excludes activities associated with the spent fuel storage facility after 2008 and most non-radiological decommissioning tasks. Interest earnings on the Trust Fund assets are recorded as Interest Income and are accumulated in the Trust Fund.

Asset Retirement Obligations (ARO). SMUD records asset retirement obligations (ARO) for tangible capital assets when an obligation to decommission facilities is legally required. SMUD recognizes AROs for its Rancho Seco nuclear power plant and for the Carson power plant facility (see Note 13). The Rancho Seco ARO is recorded as Accrued Decommissioning and the unfunded portion of the ARO is recorded as current and noncurrent Regulatory Costs for Future Recovery (see Note 8) in the Statements of Net Position. Other AROs are recorded as Accrued Decommissioning and a corresponding Deferred Asset Retirement Obligation Outflows in the Statements of Net Position.

SMUD has identified potential retirement obligations related to certain generation, distribution and transmission facilities. SMUD's non-perpetual leased land rights generally are renewed continuously because SMUD intends to utilize these facilities indefinitely. GASB No. 83, ***"Asset Retirement Obligations"*** requires the measurement of the ARO to be based on the probability weighting of potential outcomes. Due to the low probability that these leases will be terminated, a liability has not been recorded.

Cash and Cash Equivalents. Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, deposits held at financial institutions, all investments in the Local Agency Investment Fund (LAIF), and money market funds. LAIF has an equity interest in the State of California (State) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. The value of the pooled shares in LAIF which may be withdrawn anytime, are recorded at amortized cost which approximates fair value and is exempt from the fair value measurement.

Investments. Generally, SMUD's investments are reported at fair value in accordance with GASB No. 72, ***"Fair Value Measurement and Application"*** (see Note 12), except for guaranteed investment contracts (GICs) and commercial paper, which are reported at cost. Realized and unrealized gains and losses are included in Other income (expense) - net in the Statements of Revenues, Expenses and Changes in Net Position.

Electric Operating Revenues. Electric revenues are billed on the basis of monthly cycle bills and are recorded as revenue when the electricity is delivered. SMUD records an estimate for unbilled revenues earned from the dates its retail customers were last billed to the end of the month. At December 31, 2025 and 2024, unbilled revenues were $92.7 million and $89.1 million, respectively.

Purchased Power Expenses. A portion of SMUD's power needs are provided through power purchase agreements (PPA). Expenses from such agreements, along with associated transmission costs paid to other utilities, are charged to Purchased Power expense in the Statements of Revenues, Expenses and Changes in Net Position in the period the power is received. The costs or credits associated with energy swap agreements (gas and electric) or other arrangements that affect the net cost of Purchased Power are recognized in the period in which the underlying power delivery occurs. Contract termination payments and adjustments to prior billings are included in Purchased Power expense once the payments or adjustments can be reasonably estimated.

Credit and Market Risk. SMUD enters into forward purchase and sales commitments for physical delivery of gas and electricity with utilities and power marketers. These purchases and sales are exempt from derivative accounting (see Note 9). SMUD is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of these contractual agreements. In order to limit the risk of counterparty default, SMUD has a wholesale counterparty risk policy which includes using the credit agency ratings of SMUD's counterparties and other credit services, credit enhancements for counterparties that do not meet an acceptable risk level, and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. SMUD is also subject to similar requirements for many of its gas and power purchase agreements. SMUD uses a combination of cash and securities to satisfy its collateral requirements to counterparties.

SMUD's component units, NCGA and NCEA, entered into GICs and are exposed to credit risk related to nonperformance by its investment provider. For NCGA, the investment provider provides collateral if their credit ratings fall below agreed upon levels. SMUD holds deposits by counterparties and an investment provider and records the amounts in Customer deposits and other in the Statements of Net Position.

Collateral deposits that SMUD has with counterparties are recorded as Credit Support Collateral Deposits in the Statements of Net Position.

Accounts Receivable, Allowance for Doubtful Accounts and Energy Efficiency Loans. Accounts receivable is recorded at the invoiced amount and does not bear interest, except for accounts related to energy efficiency loans. SMUD recognizes an estimate of uncollectible accounts for its receivables related to electric service, energy efficiency loans, and other non-electric billings, based upon its historical experience with collections and current energy market conditions. For large wholesale receivable balances, SMUD determines its bad debt reserves based on the specific credit issues for each account. In the Statements of Net Position, SMUD reports its receivables net of the allowance for uncollectible as current assets, and its energy efficiency loans net of the allowance for uncollectible as noncurrent assets in Prepayments and other. At December 31, 2025 and 2024, SMUD estimated its uncollectible retail customer accounts at $8.9 million and $16.9 million, respectively, based on non-payment behaviors by aging category. SMUD records bad debts for its estimated uncollectible accounts related to electric service as a reduction to the related operating revenues in the Statements of Revenues, Expenses and Changes in Net Position. SMUD records bad debts for its estimated uncollectible accounts related to energy efficiency loans and other non-electric billings in Administrative, General and Customer expense in the Statements of Revenues, Expenses and Changes in Net Position.

SMUD's receivables, allowances for uncollectible and energy efficiency loans are presented below:

	December 31,	
	2025	2024
	(thousands of dollars)	
Retail customers:		
Receivables	$ 228,835	$ 226,525
Less: Allowance for uncollectible	(8,867)	(16,935)
Receivables - net	$ 219,968	$ 209,590
Wholesale and other:		
Receivables	$ 91,730	$ 90,657
Less: Allowance for uncollectible	(2,485)	(4,240)
Receivables - net	$ 89,245	$ 86,417
Energy efficiency loans:		
Receivables	$ 156	$ 277
Less: Allowance for uncollectible	(97)	(90)
Energy efficiency loans - net	$ 59	$ 187

Regulatory Deferrals. The Board has the authority to establish the level of rates charged for all SMUD services. As a regulated entity, SMUD's financial statements are prepared in accordance with GASB Statement No. 62, ***"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants Pronouncements,"*** which requires that the effects of the ratemaking process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from or refunded to customers. SMUD records various regulatory assets and credits to reflect ratemaking actions of the Board (see Note 8).

Inventories. Inventories are stated at average cost, which approximates the first-in, first-out method.

Compensated Absences. SMUD implemented GASB No. 101 "***Compensated Absences***" in 2024. SMUD accrues vacation leave and compensatory time when employees earn the rights to the benefits. Since there are no cash payments made for sick leave when employees terminate or retire, sick leave is accrued when the employees earn the rights to the benefits and to the extent it is probable that the leave will be used. Compensated absences are recorded as Accrued salaries and compensated absences in the Statements of Net Position. For the years ended December 31, 2025 and 2024, the net increase in the estimated liability for vacation, sick and other compensated absences was $1.6 million and $12.4 million, respectively.

Public Good. Public Good expenses consist of non-capital expenditures for energy efficiency programs, low income subsidies, renewable energy resources and technologies, and research and development.

Gains/Losses on Bond Refundings. Gains and losses resulting from bond refundings are included as a component of Deferred Inflows of Resources or Deferred Outflows of Resources in the Statements of Net Position and amortized as a component of Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position over the shorter of the life of the refunded debt or the new debt using the effective interest method.

Gains/Losses on Bond Defeasances or Extinguishments. Gains and losses resulting from bond defeasances or extinguishments that were not financed with the issuance of new debt are included as a component of Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position.

Deferred Outflows of Resources. A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Deferred Inflows of Resources. A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized and an inflow of resources (revenue) until that future time.

Interest Payable. SMUD records interest payable for debt service, lease and subscription assets in the Statements of Net Position in Current Liabilities. Interest payable for debt services are paid from restricted assets. As of December 31, 2025 and 2024, interest payable for debt service included in interest payable was $47.7 million and $48.4 million, respectively. Interest payable for lease and subscriptions are paid from unrestricted assets. As of December 31, 2025 and 2024, interest payable for lease and subscription assets was $0.2 million and $0.4 million, respectively.

Derivative Financial Instruments. SMUD records derivative financial instruments (interest rate swap and gas price swap agreements, certain wholesale sales agreements, certain power purchase agreements and option agreements) at fair value in its Statements of Net Position. SMUD does not enter into agreements for speculative purposes. Fair value is estimated by comparing contract prices to forward market prices quoted by third party market participants and/or provided in relevant industry publications. SMUD is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated. SMUD reports derivative financial instruments with remaining maturities of one year or less and the portion of long-term contracts with scheduled transactions over the next twelve months as current in the Statements of Net Position (see Note 9).

Interest Rate Swap Agreements. SMUD enters into interest rate swap agreements to modify the effective interest rates on outstanding debt (see Notes 9 and 10).

Gas and Electricity Price Swap and Option Agreements. SMUD uses forward contracts to hedge the impact of market volatility on gas commodity prices for its natural gas-fueled power plants and for energy prices on purchased power for SMUD's retail load (see Note 9).

Advanced Payments on Construction. SMUD receives deposits from customers in advance of completing customer directed projects. These funds are recorded in the Statements of net position as current or noncurrent liabilities.

Insurance Programs. SMUD records liabilities for unpaid claims at their present value when they are probable in occurrence and the amount can be reasonably estimated. SMUD records a liability for unpaid claims associated with general, auto, workers' compensation, and long-term disability based upon estimates derived by SMUD's claims administrator or SMUD staff. The liability comprises the present value of the claims outstanding and includes an amount for claim events incurred but not reported based upon SMUD's experience (see Note 16).

Pollution Remediation. GASB No. 49, ***"Accounting and Financial Reporting for Pollution Remediation Obligations,"*** (GASB No. 49) requires that a liability be recognized for expected outlays for remediating existing pollution when certain triggering events occur. SMUD recorded a pollution remediation obligation for its North City substation, which was built on a former landfill, for the former Community Linen Rental Services Property, and for obligations for several land sites, including a few sites where it will be building a substation. At December 31, 2025 and 2024, the total pollution remediation liability was $21.2 million and $20.6 million, respectively, and recorded as either Current Liabilities, Customer Deposits and Other or Noncurrent Liabilities, Self Insurance and Other in the Statements of Net Position. Costs were estimated using the expected cash flow technique prescribed under GASB No. 49, including only amounts that are reasonably estimable.

Hydro License. SMUD owns and operates the Upper American River Hydroelectric Project (UARP). The original license to construct and operate the UARP was issued in 1957 by FERC. Effective July 1, 2014, SMUD received a 50-year hydro license. As part of the hydro licensing process, SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. At December 31, 2025 and 2024, the liability for these contract payments was $63.7 million and $62.4 million, respectively, and recorded as either Current Liabilities, Customer Deposits and Other or Noncurrent Liabilities, Self-Insurance and Other in the Statements of Net Position (see Note 17).

Assembly Bill 32. California Assembly Bill (AB) 32 was an effort by the State of California to set a greenhouse gas (GHG) emissions reduction goal into law, and initially was set through 2020. In 2015, the state established a 2030 goal for GHG emissions at 40 percent below 1990 levels, and in July of 2017 AB-398 was approved by the Governor. Central to these initiatives is the Cap and Trade program, which covers major sources of GHG emissions in the State including power plants. AB-398 extended Cap and Trade through 2030, and more recently, in 2025, AB-1207 extended it through 2045 and renamed the program "Cap and Invest". The Cap and Invest program includes an enforceable emissions cap that will decline over time. The State distributes allowances, which are tradable permits, equal to the emissions allowed under the cap. Sources under the cap are required to surrender allowances and offsets equal to their emissions at the end of each compliance period. SMUD is subject to AB-32 and has participated in California Air Resources Board (CARB) administered quarterly auctions in the past. In a normal water year, SMUD expects its free allocation of allowances from the CARB to cover its compliance costs associated with electricity delivered to its retail customers. SMUD expects to recover compliance costs associated with wholesale power sales costs through its wholesale power sales revenues. SMUD continues to monitor new legislation and proposed programs that could impact AB-32 and its subsequent extensions.

In addition, the Low Carbon Fuel Standards (LCFS) was enacted through AB-32. CARB is responsible for the implementation of LCFS and has established a program for LCFS credits. The LCFS program is designed to reduce greenhouse gas emissions associated with the lifecycle of transportation fuels used in California. SMUD participates in the program and receives LCFS credits from CARB for the electricity used to power electric vehicles. The LCFS credits are sold to parties (oil companies) that have a compliance obligation. CARB requires that electricity LCFS credit sales proceeds be spent in a way to benefit current or future Electric Vehicle drivers in California, for both commercial and residential vehicles.

Net Pension Asset (NPA) or Liability (NPL). The NPA or NPL is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the pension plan's fiduciary net position (see Note 14).

Net Other Postemployment Benefit (OPEB) Asset (NOA) or Liability (NOL). The NOA or NOL is the difference between the actuarial present value of projected OPEB benefit payments attributable to employee's past service and the OPEB plan's fiduciary net position (see Note 15).

Net Position. SMUD classifies its net position into three components as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balances, net of unamortized debt expenses. Deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included.
- Restricted – This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in Net investment in capital assets, above), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Board. These restricted assets are reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted – This component of net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of "Net investment in capital assets" or "Restricted."

Contributions in Aid of Construction (CIAC). SMUD records CIAC from customer contributions, primarily relating to expansions to SMUD's distribution facilities, as Other income (expense) - net in the Statements of Revenues, Expenses and Changes in Net Position. Contributions of capital are valued at acquisition value. For ratemaking purposes, the Board does not recognize such revenues when received; rather, CIAC is included in revenues as such costs are amortized over the estimated useful lives of the related distribution facilities (see Note 8).

Revenues and Expenses. SMUD distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SMUD's principal ongoing operations. The principal operating revenues of SMUD are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as Non-Operating Revenues and Expenses in the Statements of Revenues, Expenses and Changes in Net Position. In 2025, SMUD received an Inflation Reduction Act payment of $91.8 million for a clean energy project, which is included in Other income - net. In 2024, SMUD received insurance proceeds of $96.5 million, which are included in Other income - net.

Grants. SMUD receives grant proceeds from federal and state assisted programs for its projects which include, but are not limited to, advanced and renewable technologies, electric transportation, and energy efficiency. SMUD also periodically receives grant proceeds from federal or state assistance programs as partial reimbursements for costs it has incurred as a result of natural disasters, such as storm or fire damages. When applicable, these programs may be subject to financial and compliance audits pursuant to regulatory requirements. During 2025, SMUD recorded $42.0 million of grant proceeds and recognized $16.7 million as a component of Other Income - Net, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, and $25.3 million as a Regulatory Credit (see Note 8).

Customer Sales and Excise Taxes. SMUD is required by various governmental authorities, including states and municipalities, to collect and remit taxes on certain customer sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position.

Subsequent Events. Subsequent events for SMUD have been evaluated through March 6, 2026 (see Note 19).

Reclassifications. Certain amounts in the 2024 Financial Statements have been reclassified in order to conform to the 2025 presentation.

Recent Accounting Pronouncements, adopted. In December 2023, GASB issued SGAS No. 102, ***"Certain Risk Disclosures"*** (GASB No. 102), to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. A *concentration* is defined as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. This Statement requires a government to assess whether a concentration or constraint could cause a substantial impact if the event occurred or has begun to occur prior to the issuance of financial statements. If a government determines that the criteria for disclosure have been met, it should disclose information in notes to financial statements in sufficient detail to enable financial statements users to understand the nature of the circumstances and the government's vulnerability to the risk of a substantial impact. This Statement is effective for SMUD in 2025 but had no impact.

Recent Accounting Pronouncements, not yet adopted. In April 2024, GASB issued SGAS No. 103, ***"Financial Reporting Model Improvements"*** (GASB No. 103), to improve key components of the financial reporting model. The purposes of the improvements are to (a) enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and (b) address certain application issues. This Statement is effective for SMUD in 2026. SMUD is currently assessing the impact of adopting this statement.

In September 2024, GASB issued SGAS No. 104, ***"Disclosure of Certain Capital Assets"*** (GASB No. 104), to require certain types of capital assets to be disclosed separately in the capital assets note disclosures. Lease assets and intangible right-to-use assets should be disclosed separately by major class of underlying asset in the capital asset note disclosures. Subscription assets should also be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class and requires additional disclosures for capital assets held for sale. This Statement is effective for SMUD in 2026. SMUD is currently assessing the disclosure impact of adopting this statement.

In December 2025, GASB issued SGAS No. 105, ***"Subsequent Events"*** (GASB No. 105), to enhance the consistency and quality of financial reporting related to subsequent events. Subsequent events are transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. The Statement defines the "date the financial statements are available to be issued" as the date when the financial statements are complete in accordance with GAAP and all necessary approvals for issuance have been obtained. It also clarifies the distinction between recognized and nonrecognized events and requires disclosure of the date through which subsequent events were evaluated. The requirements of this Statement are effective for SMUD in 2027. SMUD is currently assessing the disclosure impact of adopting this statement.

NOTE 3. COMPONENT UNIT ASSIGNMENT AND ASSUMPTION AGREEMENTS

The Agreements between SMUD and SFA transferred the operation and ownership of the assigned Power Plants to SMUD for operational and administrative efficiencies. The transfer meets the definition of a transfer of operations under GASB Statement No. 69 ***"Government Combinations and Disposals of Government Operations"*** (GASB No. 69). In accordance with GASB No. 69, SMUD began reporting 2025 operations of the assigned Power Plants as of October 1, 2025. Since these are blended component units, there was no impact to the assets, liabilities, and net position of SMUD (see Notes 2 and 6).

NOTE 4. ELECTRIC UTILITY PLANT

The summarized activity of SMUD's Electric Utility Plant during 2025 is presented below:

	Balance January 1, 2025	Additions	Transfers and Disposals	Balance December 31, 2025
		(thousands of dollars)		
Nondepreciable Electric Utility Plant:				
Land and land rights	$ 197,108	$ 5,350	$ 9,792	$ 212,250
CWIP	527,739	561,686	(314,087)	775,338
Total nondepreciable electric utility plant	724,847	567,036	(304,295)	987,588
Depreciable Electric Utility Plant:				
Generation	2,009,402	31,125	9,795	2,050,322
Transmission	676,698	14,327	117,753	808,778
Distribution	3,040,013	199,824	(84,843)	3,154,994
Intangibles	647,058	23,598	20,443	691,099
General	1,125,176	47,631	(113,867)	1,058,940
Total depreciable electric utility plant	7,498,347	316,505	(50,719)	7,764,133
Lease Assets:				
Land	1,764	-0-	-0-	1,764
Generation	78,389	-0-	-0-	78,389
General	5,663	-0-	-0-	5,663
Total lease assets	85,816	-0-	-0-	85,816
Subscription Assets	48,254	10,795	(2,400)	56,649
Less: accumulated depreciation and amortization	(3,812,196)	(285,861)	22,183	(4,075,874)
Less: accumulated amortization on JPAs	(8,532)	-0-	(314)	(8,846)
Total accumulated depreciation and amortization	(3,820,728)	(285,861)	21,869	(4,084,720)
Total depreciable plant	3,811,689	41,439	(31,250)	3,821,878
Total Electric Utility Plant - net	$ 4,536,536	$ 608,475	$ (335,545)	$ 4,809,466

The summarized activity of SMUD's Electric Utility Plant during 2024 is presented below:

	Balance January 1, 2024	Additions	Transfers and Disposals	Balance December 31, 2024
		(thousands of dollars)		
Nondepreciable Electric Utility Plant:				
Land and land rights	$ 190,812	$ 7,898	$ (1,602)	$ 197,108
CWIP	590,659	510,809	(573,729)	527,739
Total nondepreciable electric utility plant	781,471	518,707	(575,331)	724,847
Depreciable Electric Utility Plant:				
Generation	1,763,683	248,084	(2,365)	2,009,402
Transmission	649,509	30,608	(3,419)	676,698
Distribution	2,875,763	173,015	(8,765)	3,040,013
Intangibles	599,064	47,994	-0-	647,058
General	1,139,118	55,245	(69,187)	1,125,176
Total depreciable electric utility plant	7,027,137	554,946	(83,736)	7,498,347
Lease Assets:				
Land	1,764	-0-	-0-	1,764
Generation	-0-	78,389	-0-	78,389
General	5,556	107	-0-	5,663
Total lease assets	7,320	78,496	-0-	85,816
Subscription Assets	36,948	15,008	(3,702)	48,254
Less: accumulated depreciation and amortization	(3,637,296)	(261,993)	87,093	(3,812,196)
Less: accumulated amortization on JPAs	(8,219)	-0-	(313)	(8,532)
Total accumulated depreciation and amortization	(3,645,515)	(261,993)	86,780	(3,820,728)
Total depreciable plant	3,425,890	386,457	(658)	3,811,689
Total Electric Utility Plant - net	$ 4,207,361	$ 905,164	$ (575,989)	$ 4,536,536

Leases. SMUD engages in lease contracts for land, communication sites, buildings, and a power plant.

Lessor. Lease agreements include land, communication sites, and a building. Lease terms range from 4 to 35 years including options to extend the lease term after completion of the initial contracted term. The likelihood that the renewal options will be exercised has been evaluated and it has been determined that Lessees will exercise the renewal options with reasonable certainty. The agreements allow for periodic increases to the lease payments. The interest rates range between 0.7 percent to 4.2 percent based on the AAA Muni Curve with the number of years to maturity that corresponds to the lease term, plus an additional credit spread to account for a different credit rating and other factors. At December 31, 2025 and 2024, lease receivables included in current assets, Receivables - net, wholesale and other were $0.5 million and lease receivables included in noncurrent assets, Prepayments and other were $16.2 million and $16.7 million, respectively. As of December 31, 2025 and 2024, deferred lease inflows were $15.7 million and $16.4 million, respectively. SMUD recognized lease revenue of $0.7 million for 2025 and 2024, which is reported in Street lighting and other on the Statements of Revenues, Expenses and Changes in Net Position. SMUD recognized interest income of $0.3 million in 2025 and 2024. There were no variable lease payments received in 2025 or 2024.

Lessee. Lessee agreements include land, buildings, and a power plant. Lease terms range from 3 to 25 years including options to extend the lease term after completion of the initial contracted term. The likelihood that the renewal options will be exercised has been evaluated and it has been determined that the lease agreements will be renewed with reasonable certainty. The agreements allow for periodic increases to the lease payments. The interest rates range between 0.8 percent to 4.2 percent based on the AAA Muni Curve with the number of years to maturity that corresponds to the lease term, plus an additional credit spread to account for a different credit rating and other factors. As of December 31, 2025 and 2024, assets recorded under leases were $85.8 million and accumulated amortization associated with lease assets was $54.5 million and $27.9 million, respectively. SMUD recognized amortization expense of $26.6 million in 2025 and 2024, which is reported as Depreciation and amortization on the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2025 and 2024, lease obligations included in current liabilities, Customer deposits and other, were $27.1 million and $26.5 million, respectively, and lease obligations included in noncurrent liabilities, Self insurance and other, were $5.2 million and $32.3 million, respectively. There were no lease impairments in 2025 or 2024. There were no payments recorded in the current period that were not included in the measurement of the lease liability.

The following table summarizes the future annual lease principal and interest payments as of December 31, 2025 (in thousands):

	Principal	Interest	Total
2026	$ 27,120	$ 475	$ 27,595
2027	439	131	570
2028	448	126	574
2029	457	120	577
2030	467	114	581
2031-2035 (combined)	1,003	493	1,496
2036-2040 (combined)	1,100	354	1,454
2041-2045 (combined)	872	180	1,052
2046-2047 (combined)	398	18	416
Total	$ 32,304	$ 2,011	$ 34,315

Subscription Assets. SMUD has noncancellable SBITAs for the right to use information technology hardware and software. SBITA subscription terms range from 2 to 9 years including options to extend the subscription term after completion of the initial contracted term. The agreements allow for periodic increases to the subscription payments. The interest rates range between 0.25 percent to 3.22 percent based on the AAA Muni Curve with the number of years to maturity that corresponds to the subscription term, plus an additional credit spread to account for a different credit rating and other factors. As of December 31, 2025 and 2024, subscription assets recorded were $56.6 million and $48.3 million, respectively, and accumulated amortization associated with subscription assets was $30.3 million and $19.6 million, respectively. SMUD recognized SBITA amortization expense of $12.8 million in 2025 and $9.3 million in 2024 which is reported as Depreciation and amortization on the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2025 and 2024, subscription obligations included in current liabilities, Customer deposits and other, were $7.9 million and $10.4 million, respectively, and subscription obligations included in noncurrent liabilities, Self-insurance and other, were $10.0 million and $15.3 million, respectively. There were no subscription asset impairments in 2025 or 2024. There were no payments recorded in the current period that were not included in the measurement of the lease liability.

The following table summarizes the future annual SBITA principal and interest payments as of December 31, 2025 (in thousands):

	Principal	Interest	Total
2026	$ 7,876	$ 343	$ 8,219
2027	4,888	183	5,071
2028	3,930	99	4,029
2029	389	28	417
2030	315	20	335
2031-2033 (combined)	461	15	476
Total	$ 17,859	$ 688	$ 18,547

NOTE 5. INVESTMENT IN JOINT POWERS AUTHORITY

TANC. SMUD and fourteen other California municipal utilities are members of TANC, a JPA. TANC, along with the other California municipal utilities, own and operate the California-Oregon Transmission Project (COTP), a 500-kilovolt transmission line between central California and southern Oregon. SMUD is obligated to pay approximately 39 percent of TANC's COTP debt service and operations costs in exchange for entitlement to approximately 536 megawatts (MW) of TANC's 1,390 MW transfer capability. Additionally, SMUD has a 48 MW share of TANC's 300 MW firm, bi-directional transmission over Pacific Gas and Electric Company's (PG&E) system between PG&E's Tesla and Midway substations (SOT). The total entitlement shares for the COTP and SOT described above include the long-term agreements listed below.

In 2009, SMUD entered into a 15-year long-term layoff agreement (LTLA) with TANC and certain members, expiring January 31, 2024. This agreement provides for the assignment of all rights and obligations of the City of Palo Alto and the City of Roseville related to their COTP and SOT entitlements. This agreement increased SMUD's COTP entitlement by 36 MW and SOT entitlement by 2 MW. On July 1, 2014, an amendment returned to the City of Roseville all rights and obligations related to the COTP entitlements, which decreased SMUD's COTP entitlement by 13 MW. In 2023, the Commission approved Amendment No. 3 to the 2009 LTLA. The amendment extends the duration of 2009 LTLA for an additional ten years and was effective January 30, 2024.

Effective July 1, 2014, SMUD entered into a 25-year LTLA with TANC and certain members that provides for the assignment of all rights and obligations of Northern California Power Agency and partial rights and obligations of the City of Santa Clara related to their COTP entitlements. This agreement increased SMUD's COTP entitlements by 130 MW.

The long-term debt of TANC, which totals $152.1 million (unaudited) at December 31, 2025, is collateralized by a pledge and assignment of net revenues of TANC supported by take or pay commitments of SMUD and other members. Should other members default on their obligations to TANC, SMUD would be required to make additional payments to cover a portion of such defaulted payments, up to 25 percent of its current obligation. SMUD recorded transmission expenses related to TANC of $19.6 million and $18.9 million in 2025 and 2024, respectively.

In 2024, TANC issued a line of credit for $120 million for the replacement project related to the series capacitors and has drawn $92 million from the line of credit. In 2025, TANC amended the line of credit and extended the maturity date from September 3, 2025, to September 3, 2027.

Summary financial information for TANC is presented below:

	December 31,	
	2025 (Unaudited)	2024 (Unaudited)
	(thousands of dollars)	
Total Assets and Deferred Outflows of Resources	$ 515,535	$ 501,368
Total Liabilities	$ 407,174	$ 399,995
Total Deferred Inflows of Resources	1,193	1,287
Total Net Position	107,168	100,086
Total Liabilities and Net Position	$ 515,535	$ 501,368
Changes in Net Position for the Six Months Ended December 31	$ 11	$ 6

Copies of the TANC annual financial reports may be obtained from SMUD at P.O. Box 15830, Sacramento, California 95852 or online at www.tanc.us.

BANC. SMUD, City of Redding, City of Roseville, Modesto Irrigation District (MID), City of Shasta Lake, and Trinity Public Utilities District are members of BANC, a JPA formed in 2009. In 2011, operational control of Balancing Authority Area (BAA) operations was transferred from SMUD to BANC. BANC performs FERC approved BAA reliability functions that are managed by North American Electric Reliability Corporation (NERC), nationally, and by Western Electricity Coordinating Council functions in the west. SMUD recorded expenses related to BANC of $5.1 million and $5.3 million in 2025 and 2024, respectively.

Summary financial information for BANC is presented below:

	December 31,	
	2025 (Audited)	2024 (Audited)
	(thousands of dollars)	
Total Assets	$ 7,409	$ 7,753
Total Liabilities	$ 7,409	$ 7,753
Total Net Position	-0-	-0-
Total Liabilities and Net Position	$ 7,409	$ 7,753
Changes in Net Position for the Year Ended December 31	$ -0-	$ -0-

Copies of the BANC annual financial reports may be obtained from SMUD at P.O. Box 15830, Sacramento, California 95852.

NOTE 6. COMPONENT UNITS

SFA. SFA is a JPA formed by SMUD and MID. SFA operates the Cosumnes Power Plant Project (Cosumnes), Carson Power Plant (Carson), Procter and Gamble Power Plant (Procter and Gamble), Campbell Power Plant (Campbell) and McClellan Power Plant (McClellan). Cosumnes is a 602 MW (net) natural gas-fired, combined cycle facility which began commercial operations in 2006. The revenue stream to pay the SFA bonds' debt service is provided by a "take-or-pay" power purchase agreement between SMUD and SFA. SFA's bonds were paid off in 2025. Carson began commercial operations in 1995 and is comprised of a 68 MW natural gas-fired combined cycle cogeneration facility and a 42 MW natural gas-fired simple cycle peaking plant. Procter and Gamble began commercial operations in 1997 and is comprised of a 145 MW natural gas-fired combined cycle plant and a 50 MW natural gas-fired simple cycle peaking plant which was subsequently added and began commercial operations in 2001. Campbell began commercial operations in 1997 and is a 183 MW natural gas-fired combined-cycle cogeneration plant consisting of a combustion turbine generator and a steam turbine generator. McClellan is a 72 MW simple cycle combustion turbine and has been operating since 1986. On October 1, 2025, SFA assets and obligations, including ownership of the assigned Power Plants, were transferred to SMUD (see Notes 2 and 3).

NCGA. NCGA is a JPA formed by SMUD and the SFA. NCGA has a prepaid gas contract with Morgan Stanley Capital Group (MSCG) expiring in 2027, which is financed primarily by NCGA revenue bonds. SMUD has contracted with NCGA to purchase all the gas delivered by MSCG to NCGA, based on market prices. SMUD requested to have its entire daily contract quantity remarketed for each gas day of each month from November 1, 2023 until May 31, 2027. MSCG, pursuant to the Gas remarketing provisions shall purchase all of the remarketed gas for its own account. NCGA is obligated to pay the principal and interest on the bonds. Neither SMUD nor SFA is obligated to make debt service payments on the bonds. NCGA can terminate the prepaid gas contract under certain circumstances, including a failure by MSCG to meet its gas delivery obligation to NCGA or a drop in MSCG's credit rating below a specified level. If this occurs, MSCG will be required to make a termination payment to NCGA based on the unamortized prepayment proceeds received by MSCG.

NCEA. NCEA is a JPA formed by SMUD and the SFA. NCEA has a prepaid natural gas and electricity (commodity) contract with J. Aron & Company LLC (J. Aron) expiring in 2049, which is financed primarily by NCEA revenue bonds. The contract has been amended and restated to expire in 2054 due to the issuance of the 2024 Revenue Refunding Bond. SMUD has contracted with NCEA to purchase all the commodity delivered by J. Aron to NCEA, based on market prices. NCEA is obligated to pay the principal and interest on the bonds. Neither SMUD nor SFA is obligated to make debt service payments on the bonds. NCEA can terminate the prepaid commodity contract under certain circumstances, including a failure by J. Aron to meet its commodity delivery obligation to NCEA. If this occurs, J. Aron will be required to make a termination payment to NCEA based on the unamortized prepayment proceeds received by J. Aron.

The summarized activity of SMUD's component units for 2025 is presented below:

CONDENSED STATEMENTS OF NET POSITION
December 31, 2025
(thousands of dollars)

	SMUD	NCGA	NCEA	Eliminating	Total
Assets					
Electric Utility Plant - net	$ 4,809,466	$ -0-	$ -0-	$ -0-	$ 4,809,466
Restricted and Designated Assets	375,574	-0-	-0-	-0-	375,574
Current Assets	1,486,678	56,361	41,008	(5,763)	1,578,284
Noncurrent Assets	1,186,086	16,284	678,266	(2,793)	1,877,843
Total Assets	7,857,804	72,645	719,274	(8,556)	8,641,167
Deferred Outflows of Resources	306,027	-0-	-0-	-0-	306,027
Total Assets and Deferred Outflows of Resources	$ 8,163,831	$ 72,645	$ 719,274	$ (8,556)	$ 8,947,194
Liabilities					
Long-Term Debt - net	$ 2,497,279	$ 34,825	$ 710,347	$ -0-	$ 3,242,451
Current Liabilities	626,335	33,187	19,245	(5,763)	673,004
Noncurrent Liabilities	562,049	-0-	126	-0-	562,175
Total Liabilities	3,685,663	68,012	729,718	(5,763)	4,477,630
Deferred Inflows of Resources	1,292,916	-0-	2,107	-0-	1,295,023
Net Position					
Net Investment in Capital Assets	2,131,651	-0-	-0-	-0-	2,131,651
Restricted	100,775	16,528	12,163	-0-	129,466
Unrestricted	952,826	(11,895)	(24,714)	(2,793)	913,424
Total Net Position	3,185,252	4,633	(12,551)	(2,793)	3,174,541
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 8,163,831	$ 72,645	$ 719,274	$ (8,556)	$ 8,947,194

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
December 31, 2025
(thousands of dollars)

	SMUD	NCGA	NCEA	Eliminating	Total
Operating Revenues	$ 2,311,280	$ 1,932	$ 27,785	$ (220,251)	$ 2,120,746
Operating Expenses	1,736,417	508	(1,083)	(220,049)	1,515,793
Depreciation and Amortization	283,310	-0-	-0-	(202)	283,108
Operating Income	291,553	1,424	28,868	-0-	321,845
Non-Operating Revenues and (Expenses)					
Interest Income	46,902	781	967	(34)	48,616
Investment Income (Expense) - net	(2,876)	-0-	-0-	-0-	(2,876)
Other Income - net	98,004	-0-	-0-	(3,295)	94,709
Interest Charges	(69,584)	(3,476)	(26,813)	-0-	(99,873)
Total Non-Operating Revenues and (Expenses)	72,446	(2,695)	(25,846)	(3,329)	40,576
Changes in Net Position Before Distributions and Contributions	363,999	(1,271)	3,022	(3,329)	362,421
Distributions to Member	-0-	(821)	(2,508)	3,329	-0-
Member Contributions	-0-	79	82	(161)	-0-
Change in Net Position	363,999	(2,013)	596	(161)	362,421
Net Position - Beginning of Year	2,821,253	6,646	(13,147)	(2,632)	2,812,120
Net Position - End of Year	$ 3,185,252	$ 4,633	$ (12,551)	$ (2,793)	$ 3,174,541

CONDENSED STATEMENTS OF CASH FLOWS
December 31, 2025
(thousands of dollars)

	SMUD	NCGA	NCEA	Eliminating	Total
Net Cash Provided by Operating Activities	$ 565,507	$ 33,370	$ 38,416	$ -0-	$ 637,293
Net Cash Provided by (Used in) Noncapital Financing Activities	22,030	(32,881)	(42,447)	-0-	(53,298)
Net Cash Used in Capital and Related Financing Financing Activities	(483,199)	-0-	-0-	-0-	(483,199)
Net Cash Provided by (Used in) Investing Activities	(19,893)	780	2,865	-0-	(16,248)
Net Increase (Decrease) in Cash and Cash Equivalents	84,445	1,269	(1,166)	-0-	84,548
Cash and Cash Equivalents at the Beginning of the Year	399,683	15,972	1,176	-0-	416,831
Cash and Cash Equivalents at the End of the Year	$ 484,128	$ 17,241	$ 10	$ -0-	$ 501,379

The summarized activity of SMUD's component units for 2024 is presented below:

CONDENSED STATEMENTS OF NET POSITION
December 31, 2024
(thousands of dollars)

	SMUD	SFA	NCGA	NCEA	Eliminating	Total
Assets						
Electric Utility Plant - net	$ 4,275,258	$ 264,777	$ -0-	$ -0-	$ (3,499)	$ 4,536,536
Restricted and Designated Assets	373,189	-0-	-0-	-0-	-0-	373,189
Current Assets	1,244,949	144,962	51,027	43,720	(113,670)	1,370,988
Noncurrent Assets	1,386,560	481	52,230	687,870	(287,021)	1,840,120
Total Assets	7,279,956	410,220	103,257	731,590	(404,190)	8,120,833
Deferred Outflows of Resources	321,725	1,848	-0-	-0-	-0-	323,573
Total Assets and Deferred Outflows of Resources	$ 7,601,681	$ 412,068	$ 103,257	$ 731,590	$ (404,190)	$ 8,444,406
Liabilities						
Long-Term Debt - net	$ 2,398,092	$ 64,636	66,245	$ 722,286	$ -0-	$ 3,251,259
Current Liabilities	599,061	70,466	30,366	19,824	(113,670)	606,047
Noncurrent Liabilities	626,028	15,340	-0-	60	(3,525)	637,903
Total Liabilities	3,623,181	150,442	96,611	742,170	(117,195)	4,495,209
Deferred Inflows of Resources	1,138,009	-0-	-0-	2,567	(3,499)	1,137,077
Net Position						
Net Investment in Capital Assets	1,661,837	181,353	-0-	-0-	-0-	1,843,190
Restricted	102,083	9,059	14,954	15,263	-0-	141,359
Unrestricted	1,076,571	71,214	(8,308)	(28,410)	(283,496)	827,571
Total Net Position	2,840,491	261,626	6,646	(13,147)	(283,496)	2,812,120
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 7,601,681	$ 412,068	$ 103,257	$ 731,590	$ (404,190)	$ 8,444,406

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
December 31, 2024
(thousands of dollars)

	SMUD	SFA	NCGA	NCEA	Eliminating	Total
Operating Revenues	$ 1,953,511	$ 283,543	$ 1,088	$ 24,316	$ (300,357)	$ 1,962,101
Operating Expenses	1,570,088	248,427	(2,027)	14,298	(300,086)	1,530,700
Depreciation and Amortization	234,644	38,885	-0-	-0-	(271)	273,258
Operating Income (Loss)	148,779	(3,769)	3,115	10,018	-0-	158,143
Non-Operating Revenues and (Expenses)						
Interest Income	41,907	2,219	889	514	(48)	45,481
Investment Income (Expense) - net	(5,173)	-0-	-0-	-0-	-0-	(5,173)
Other Income - net	129,224	86	-0-	-0-	(524)	128,786
Interest Charges	(70,250)	(2,649)	(4,688)	(24,229)	-0-	(101,816)
Total Non-Operating Revenues and (Expenses)	95,708	(344)	(3,799)	(23,715)	(572)	67,278
Changes in Net Position Before Distributions and Contributions	244,487	(4,113)	(684)	(13,697)	(572)	225,421
Distributions to Member	-0-	-0-	(572)	-0-	572	-0-
Member Contributions	-0-	-0-	75	498	(573)	-0-
Change in Net Position	244,487	(4,113)	(1,181)	(13,199)	(573)	225,421
Net Position - Beginning of Year	2,596,004	265,739	7,827	52	(282,923)	2,586,699
Net Position - End of Year	$ 2,840,491	$ 261,626	$ 6,646	$ (13,147)	$ (283,496)	$ 2,812,120

CONDENSED STATEMENTS OF CASH FLOWS
December 31, 2024
(thousands of dollars)

	SMUD	SFA	NCGA	NCEA	Eliminating	Total
Net Cash Provided by Operating Activities	$ 507,925	$ 41,112	$ 32,332	$ 37,663	$ -0-	$ 619,032
Net Cash Provided by (Used in) Noncapital Financing Activities	92,383	156	(31,193)	(31,023)	-0-	30,323
Net Cash Used in Capital and Related Financing Financing	(515,523)	(31,010)	-0-	-0-	-0-	(546,533)
Net Cash Provided by (Used in) Investing Activities	29,136	2,032	897	(9,280)	-0-	22,785
Net Increase (Decrease) in Cash and Cash Equivalents	113,921	12,290	2,036	(2,640)	-0-	125,607
Cash and Cash Equivalents at the Beginning of the Year	226,801	46,671	13,936	3,816	-0-	291,224
Cash and Cash Equivalents at the End of the Year	$ 340,722	$ 58,961	$ 15,972	$ 1,176	$ -0-	$ 416,831

As described in Note 2, all of the activities and balances of the component units are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. Copies of NCGA's and NCEA's annual financial reports may be obtained from their Executive Office at P.O. Box 15830, Sacramento, California 95852 or online at www.smud.org.

NOTE 7. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. SMUD's investment policy is governed by the California State and Municipal Codes and its Indenture, which allow SMUD's investments to include: obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; LAIF; and money market funds. SMUD's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. To mitigate this risk, SMUD limits investments to those rated, at a minimum, "A-1" or equivalent for short-term investments and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency, with the exception of the GICs held by NCEA. NCEA's GICs are rated at the credit rating of the commodity supplier, or, if not rated, the guarantor of the commodity supplier which is currently Goldman Sachs.

Custodial Credit Risk. This is the risk that, in the event of the failure of a depository financial institution or counterparty to a transaction, SMUD's deposits and investments may not be returned or SMUD will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. SMUD does not have a deposit or investment policy for custodial credit risk.

As of December 31, 2025 and 2024, $5.9 million and $7.2 million in deposits were uninsured, respectively. The bank balance is also, per a depository pledge agreement between SMUD and SMUD's bank, collateralized at 155 percent and 134 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by Federal Deposit Insurance Corporation) at December 31, 2025 and 2024, respectively. SMUD had unsecured deposits in commercial paper, money market funds and money market deposit accounts of $224.4 million and $196.3 million which were uninsured at December 31, 2025 and 2024, respectively. SMUD's investments and money market funds are held in SMUD's name.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. SMUD places no limit on the amounts invested in any one issuer for repurchase agreements, US Treasuries, federal agency, and state and municipal securities.

The following are the concentrations of risk greater than five percent in either year:

	December 31,	
	2025	2024
Investment Type:		
Federal Home Loan Banks	N/A	18%
Freddie Mac	8%	17%
Commercial Paper – Chesham Finance	12%	6%
Municipal Bond - Los Angeles CUSD	8%	N/A
Corporate Note – Toyota Motor Credit Corp	N/A	11%
Corporate Note – Wells Fargo Bank	12%	N/A
Corporate Note – Chevron Corp	8%	N/A
Corporate Note – Apple Inc	19%	20%
Guaranteed Investment Contracts	21%	13%

Interest Rate Risk. This is the risk of loss due to the fair value of an investment declining due to interest rates rising. Though SMUD has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following schedules indicate the credit and interest rate risk at December 31, 2025 and 2024. The credit ratings listed are from Standard & Poor's (S&P) or Moody's. (N/A is defined as not applicable to the rating disclosure requirements.)

At December 31, 2025, SMUD's cash, cash equivalents, and investments consist of the following:

		Remaining Maturities (in years)			
Description	Credit Rating	Less Than 1	1-5	More Than 5	Total Carrying Value
		(thousands of dollars)			
Cash and Cash Equivalents:					
Cash	N/A	$ 19,220	$ -0-	$ -0-	$ 19,220
LAIF	Not Rated	74,885	-0-	-0-	74,885
Money Market Funds	AAAm	191,936	-0-	-0-	191,936
Money Market Deposit Account	N/A	17,395	-0-	-0-	17,395
Collaterals and Escrows	N/A	83,239	-0-	-0-	83,239
Commercial Paper	A-1	15,285	-0-	-0-	15,285
US Treasury Obligations	Aaa	99,419	-0-	-0-	99,419
Total cash and cash equivalents		501,379	-0-	-0-	501,379
Investments:					
Freddie Mac	AA+	9,881	-0-	-0-	9,881
U.S. Treasury Obligations	Aaa	446,179	179,485	-0-	625,664
Corporate Notes	A/A+/AA/AA-/AA+	10,033	55,592	-0-	65,625
Municipal Bonds	AA-	-0-	10,188	-0-	10,188
Guaranteed Investment Contracts	AA+/A+	-0-	-0-	26,684	26,684
Total investments		466,093	245,265	26,684	738,042
Total cash, cash equivalents, and investments		$ 967,472	$ 245,265	$ 26,684	$ 1,239,421

At December 31, 2024, SMUD's cash, cash equivalents, and investments consist of the following:

		Remaining Maturities (in years)			
Description	Credit Rating	Less Than 1	1-5	More Than 5	Total Carrying Value
		(thousands of dollars)			
Cash and Cash Equivalents:					
Cash	N/A	$ 28,256	$ -0-	$ -0-	$ 28,256
LAIF	Not Rated	125,060	-0-	-0-	125,060
Money Market Funds	AAAm	166,139	-0-	-0-	166,139
Money Market Deposit Account	N/A	16,667	-0-	-0-	16,667
Collaterals and Escrows	N/A	66,977	-0-	-0-	66,977
Commercial Paper	A-1	13,732	-0-	-0-	13,732
Total cash and cash equivalents		416,831	-0-	-0-	416,831
Investments:					
Federal Home Loan Bank	AA+	39,932	-0-	-0-	39,932
Freddie Mac	AA+	27,887	9,495	-0-	37,382
U.S. Treasury Obligations	Aaa	344,507	124,639	-0-	469,146
Corporate Notes	AAA/AA+/AA/ A+	55,242	34,293	-0-	89,535
Municipal Bonds	AA+/AA/AA-	11,766	-0-	-0-	11,766
Guaranteed Investment Contracts	AA+/ A+	-0-	-0-	28,517	28,517
Total investments		479,334	168,427	28,517	676,278
Total cash, cash equivalents, and investments		$ 896,165	$ 168,427	$ 28,517	$ 1,093,109

SMUD's cash, cash equivalents, and investments are classified in the Statements of Net Position as follows:

	December 31,	
	2025	2024
	(thousands of dollars)	
Cash, Cash Equivalents, and Investments:		
Revenue bond reserve and debt service funds:		
Debt service fund	$ 71,639	$ 68,099
Component unit bond reserve and debt service funds	40,925	52,415
Total revenue bond reserve and debt service funds	112,564	120,514
Nuclear decommissioning trust fund	10,327	9,909
Rate stabilization fund	350,173	345,389
Component unit other restricted funds	3,011	4,177
Escrow fund	19,405	14,027
Other restricted funds	42,772	51,962
Unrestricted funds	701,169	547,131
Total cash, cash equivalents, and investments	$ 1,239,421	$ 1,093,109

NOTE 8. REGULATORY DEFERRALS

The Board has taken various regulatory actions that result in differences between the recognition of revenues and expenses for ratemaking purposes and their treatment under generally accepted accounting principles for non-regulated entities (see Note 2). These actions result in regulatory assets and deferred inflow of resources, which are summarized in the tables below. Changes to these balances, and their inclusion in rates, occur only at the direction of the Board.

Regulatory Assets (Costs)

Decommissioning. SMUD's regulatory asset relating to the unfunded portion of its decommissioning liability for the Rancho Seco nuclear power plant is being collected through interest earnings on the Trust Fund. Nuclear fuel storage costs and non-radiological decommissioning costs have been collected in rates since 2009.

Derivative Financial Instruments. SMUD's regulatory costs and/or credits relating to investment and other derivative instruments are intended to defer the net difference between the fair value of derivative instruments and their cost basis, if any. Investment and other derivative instruments are reflected in rates at contract cost and as such, the balance is charged or credited into rates as the related asset or deferred inflow of resource is utilized (see Note 9).

Debt Issuance Costs. SMUD established a regulatory asset for costs incurred in connection with the issuance of debt obligations for the component units, principally underwriter fees and legal costs. The regulatory asset is amortized over the life of the bonds for the component units' debt issuance costs. Debt issuance costs after December 31, 2013 are expensed.

Pension Implementation Costs. SMUD established a regulatory asset for pension costs related to the implementation of GASB No. 68 which requires SMUD to record a net pension asset or a net pension liability. The regulatory asset is being amortized over a period of 25 years starting in 2018.

OPEB Implementation Costs. SMUD established a regulatory asset for OPEB costs related to the implementation of GASB No. 75 which requires SMUD to record a net OPEB asset or net OPEB liability. The regulatory asset is being amortized over a period of 25 years starting in 2020.

Pension/OPEB Deferred Outflows/Inflows. In 2022, SMUD established regulatory accounting for pension and OPEB regulatory costs and/or credits to defer recognition of certain expenses related to the amortization of the pension and OPEB deferred outflows and deferred inflows of resources to match such costs in the appropriate accounting period for rate-making purposes.

SMUD's total regulatory costs for future recovery are presented below:

	December 31,	
	2025	2024
	(thousands of dollars)	
Regulatory Costs:		
Decommissioning	$ 118,490	$ 105,119
Derivative financial instruments	1,432	622
Debt issuance costs	157	836
Pension – implementation costs	289,463	306,490
Pension – deferred outflows	363,841	274,163
OPEB – implementation costs	242,691	255,464
OPEB – deferred outflows	79,021	59,219
Total regulatory costs	1,095,095	1,001,913
Less: regulatory costs to be recovered within one year	(97,466)	(78,921)
Total regulatory costs for future recovery - net	$ 997,629	$ 922,992

Regulatory Credits

CIAC. In 2025 and 2024, SMUD added CIAC totaling $30.7 million and $32.7 million, respectively, to Regulatory Credits in the Statements of Net Position and recorded $22.5 million and $16.1 million of amortization, respectively, to Other income (expense) - net in the Statements of Revenues, Expenses and Changes in Net Position. SMUD's regulatory credit relating to CIAC is intended to offset the revenue and expense associated with this accounting treatment. Thus, this regulatory credit is being amortized into rates over the depreciable lives of the related assets in order to offset the earnings effect of these non-exchange transactions (see Note 2).

Rate Stabilization. SMUD's regulatory credit relating to Rate Stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either deferred into this fund (which reduces revenues), or amounts are recognized out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) deferrals on an event driven basis.

In 2025 and 2024, $3.5 million and $9.3 million, respectively, were deferred from revenue to the RSF as a result of higher than budgeted energy deliveries from the Western Area Power Administration.

SMUD participates in the carbon allowance auctions under AB-32, the Global Warming Solutions Act (see Note 2). The Board authorized deferral of AB-32 auction proceeds to match the revenue recognition with the related expenses. The difference between the auction proceeds received and the funds spent on AB-32 programs are deferred into future years. In 2025 and 2024, the Board authorized deferring the difference into the RSF and $10.6 million and $18.7 million, respectively, was deferred from revenue to the RSF.

SMUD sells LCFS credits under AB-32, the Global Warming Solutions Act (see Note 2). The Board authorized deferral of LCFS credit sales to match the revenue recognition with the related expenses. The difference between the LCFS credit sales and the funds spent on LCFS programs are deferred into future years. In 2025, the Board authorized deferring the difference and $1.5 million was deferred from revenue to the RSF. In 2024, the Board authorized transferring the difference out of the RSF and $0.3 million was recognized from the RSF to revenue.

Between the years 2020 and 2024, the Board authorized SMUD to defer operating revenue to the RSF. These transfers from revenue are intended to offset Community Impact Plan expenditures, future unexpected increases in commodity expenditures, and future one-time specific expenses, which may have a significant financial impact on SMUD. In 2025 and 2024, $3.7 million and $7.1 million was recognized from the RSF to revenue each year to offset Community Impact Plan expenditures.

Hydro Rate Stabilization. The Hydro Rate Stabilization Fund (HRSF) was established through the Hydro Generation Adjustment (HGA) mechanism, which helps manage volatility in energy costs. The HGA mechanism applies a formula based on precipitation and wholesale electricity prices to calculate needed withdrawals from or deposits to the HRSF. The maximum balance of the HRSF is 6 percent of the budgeted retail revenue and the maximum annual transfer in or out of the HRSF is 4 percent of budgeted retail revenue. If the HRSF is depleted, SMUD will apply a hydro rate surcharge to customers' bills up to 4 percent. When the HRSF reaches the 6 percent cap, the Board may authorize a hydro rebate to customers or direct the funds for another purpose. In 2025 and 2024, $7.2 million and $8.3 million were recognized from the HRSF to revenue as a result of low precipitation.

Senate Bill 1. SMUD implemented a per kilowatt hour solar surcharge, effective January 1, 2008 in order to fund investments in solar required by Senate Bill 1 (SB-1). The difference between the surcharge revenues received and the funds spent on solar initiatives will be recognized or deferred into future years. SMUD has spent less than it collected in SB-1 revenues and has recorded a regulatory credit. Collection of the solar surcharge ended in December 2017 when total collections reached $130.0 million. In 2025 and 2024, $1.5 million and $1.0 million were spent for SB-1 programs, respectively.

Sustainable Communities. In 2023, the Board authorized a $5.0 million restricted donation to be deferred to offset future expenses for sustainable communities. In 2025, $5.0 million was recognized, offsetting Community Impact Plan expenses.

Grant Revenues. In 2010, the Board authorized the deferral of all grant revenue for capital expenditures as regulatory liabilities. This regulatory credit is deferred to match the depreciable lives of the related capital assets in order to offset the earnings effect of these non-exchange transactions (see Note 2).

TANC Operations Costs. SMUD's cash payments to TANC exceeded TANC's accrual-based costs and SMUD has recorded a regulatory credit.

SMUD's total regulatory credits for future revenue recognition are presented below:

	December 31,	
	2025	2024
	(thousands of dollars)	
Regulatory Credits:		
CIAC	$ 329,646	$ 321,394
Rate stabilization	269,306	257,354
Hydro rate stabilization	80,867	88,035
Senate Bill 1	18	1,511
Sustainable Communities	-0-	5,000
Pension – deferred inflows	259,937	185,388
OPEB – deferred inflows	89,735	72,336
Grant revenues	49,317	28,255
TANC operations costs	40,681	35,490
Total regulatory credits	$ 1,119,507	$ 994,763

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

To help provide stable electric rates and to meet the forecasted power needs of its retail customers reliably, SMUD enters into various physical and financial fixed price purchase contracts for electricity and natural gas. These fixed price contracts and swap agreements are intended to hedge the exposure due to highly volatile commodity prices. SMUD also enters into interest rate swap agreements to reduce interest rate risk. SMUD utilizes these derivative financial instruments to mitigate its exposure to certain market risks associated with ongoing operations. SMUD has established policies set by an executive committee for the use of derivative financial instruments for trading purposes. These contracts are evaluated pursuant to GASB No. 53, ***"Accounting and Financial Reporting for Derivative Instruments,"*** (GASB No. 53) to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures.

SMUD applies hedge accounting for derivative instruments that are deemed effective hedges. Under hedge accounting, the increase or (decrease) in the fair value of a hedge is reported as a Deferred Inflow or Deferred Outflow in the Statements of Net Position. Accumulated gains and losses from derivative instruments that do not meet the effectiveness tests are deferred for ratemaking purposes as regulatory assets on the Statements of Net Position (see Note 8).

SMUD executed numerous new gas and power related purchase agreements, some of which are recorded as hedging or other derivative instruments and are therefore included in the following table. All hedging, investment or other derivative instruments are recorded at fair value in the Statements of Net Position (see Note 12).

The following is a summary of the fair value, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2025 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2025 Changes in Fair Value		Fair Value at December 31, 2025		
	Current Amount	Noncurrent Amount	Current Amount	Noncurrent Amount	Notional
Cash Flow Hedges:					
(thousands of dollars)					
(thousands of Dekatherms (Dth))					
Asset: Other Derivative Instruments					
Gas – Commodity	$ (31)	$ -0-	$ 49	$ -0-	78 Dth
Electric – Commodity	-0-	-0-	-0-	-0-	
Gas – Storage	-0-	-0-	-0-	-0-	
Gas – Transportation	-0-	-0-	-0-	-0-	
Total Other Derivative Instruments	$ (31)	$ -0-	$ 49	$ -0-	
Asset: Hedging Derivative Instruments					
Gas – Commodity	$ (9,355)	$ 456	$ 1,931	$ 3,622	45,652 Dth
Electric – Commodity	3,681	1,123	10,399	1,123	1,709 Dth
Gas – Storage	74	-0-	1,182	-0-	1,102 Dth
Gas – Transportation	-0-	-0-	-0-	-0-	
Interest Rate	(625)	(2,843)	2,079	26,320	$132,020
Total Hedging Derivative Instruments	$ (6,225)	$ (1,264)	$ 15,591	$ 31,065	
Liability: Other Derivative Instruments					
Gas – Commodity	$ (731)	$ (49)	$ 1,112	$ 369	3,155 Dth
Electric – Commodity	-0-	-0-	-0-	-0-	
Gas – Storage	-0-	-0-	-0-	-0-	
Gas – Transportation	-0-	-0-	-0-	-0-	
Interest Rate	-0-	-0-	-0-	-0-	$0
Total Other Derivative Instruments	$ (731)	$ (49)	$ 1,112	$ 369	
Liability: Hedging Derivative Instruments					
Gas – Commodity	$ (12,194)	$ (923)	$ 33,525	$ 8,663	111,970 Dth
Electric – Commodity	(461)	(110)	461	110	302 Dth
Gas – Storage	(8)	-0-	29	-0-	78 Dth
Gas – Transportation	(9,488)	(1,394)	17,422	4,597	38,325 Dth
Interest Rate	-0-	-0-	-0-	-0-	$0
Total Hedging Derivative Instruments	$ (22,151)	$ (2,427)	$ 51,437	$ 13,370	

The following is a summary of the fair value, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2024 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2024 Changes in Fair Value		Fair Value at December 31, 2024		
	Current Amount	Noncurrent Amount	Current Amount	Noncurrent Amount	Notional
Cash Flow Hedges:					
(thousands of dollars)					
(thousands of Dekatherms (Dth))					
Asset: Other Derivative Instruments					
Gas – Commodity	$ 80	$ -0-	$ 80	$ -0-	610 Dth
Electric – Commodity	-0-	-0-	-0-	-0-	
Gas – Storage	-0-	-0-	-0-	-0-	
Gas – Transportation	-0-	-0-	-0-	-0-	
Total Other Derivative Instruments	$ 80	$ -0-	$ 80	$ -0-	$0
Asset: Hedging Derivative Instruments					
Gas – Commodity	$ 7,177	$ (6,530)	$ 11,286	$ 3,166	46,728 Dth
Electric – Commodity	5,627	-0-	6,718	-0-	501 Dth
Gas – Storage	(835)	-0-	1,108	-0-	1,133 Dth
Gas – Transportation	(661)	-0-	-0-	-0-	
Interest Rate	(682)	4,014	2,704	29,163	$132,020
Total Hedging Derivative Instruments	$ 10,626	$ (2,516)	$ 21,816	$ 32,329	
Liability: Other Derivative Instruments					
Gas – Commodity	$ 779	$ (320)	$ 381	$ 320	2,535 Dth
Electric – Commodity	-0-	-0-	-0-	-0-	
Gas – Storage	-0-	-0-	-0-	-0-	
Gas – Transportation	-0-	-0-	-0-	-0-	
Interest Rate	-0-	-0-	-0-	-0-	$0
Total Other Derivative Instruments	$ 779	$ (320)	$ 381	$ 320	
Liability: Hedging Derivative Instruments					
Gas – Commodity	$ 28,904	$ 14,563	$ 21,331	$ 7,740	59,473 Dth
Electric – Commodity	3,749	-0-	-0-	-0-	
Gas – Storage	(21)	-0-	21	-0-	218 Dth
Gas – Transportation	1,158	(3,203)	7,934	3,203	19,840 Dth
Interest Rate	-0-	-0-	-0-	-0-	$0
Total Hedging Derivative Instruments	$ 33,790	$ 11,360	$ 29,286	$ 10,943	

Objectives and Terms of Hedging Derivative Instruments. The objectives and terms of SMUD's hedging and other derivative instruments that were outstanding at December 31, 2025 are summarized in the table below. The table is aggregated by the trading strategy. Credit ratings of SMUD's counterparties can be found in the table under Credit Risk. Details of SMUD's interest rate derivative instruments can be found in Note 10.

	Notional Amount Dth	Beginning Date	Ending Date	Minimum Price/Dth	Maximum Price/Dth
Gas – Commodity	160,855	01/01/26	12/31/28	$ (0.12)	$ 5.04
Electric – Commodity	2,011	01/01/26	12/31/27	16.75	81.95
Gas – Storage	1,180	01/01/26	02/28/26	0.07	4.98
Gas – Transportation	38,325	01/01/26	12/31/27	(0.33)	0.61

The objectives and terms of SMUD's hedging and other derivative instruments that were outstanding at December 31, 2024 are summarized in the table below. The table is aggregated by the trading strategy.

	Notional Amount Dth	Beginning Date	Ending Date	Minimum Price/Dth	Maximum Price/Dth
Gas – Commodity	109,346	01/01/25	12/31/27	$ 0.91	$ 5.59
Electric – Commodity	501	01/01/25	09/30/25	59.50	89.76
Gas – Storage	1,350	01/01/25	03/31/25	0.75	3.92
Gas – Transportation	19,840	01/01/25	12/31/26	(0.29)	3.24

SMUD hedges its interest rate exposure with swaps. As of December 31, 2025 and 2024, SMUD has one interest rate swap outstanding. The swap is used to convert the interest expense associated with the 2023 Series C variable rate bonds to a fixed interest expense (see Note 10).

SMUD hedges its power and natural gas costs so that it can offer predictable rates to its retail electric customers and support its credit ratings. SMUD maintains a risk management program to control the price, credit, and operational risks arising from its power and natural gas market activities. Under the program, authorized SMUD employees assemble a portfolio of swaps, futures, and forward contracts over time with the goal of making SMUD's purchased power and fuel budget more predictable.

The hedged risks include those related to interest rate and commodity price fluctuations associated with certain forecasted transactions, including interest rate risk on long-term debt, and forward purchases of gas and electricity to meet load.

Derivative Instruments Not Designated as Hedging Derivative Instruments

Gas and Electric Contracts. SMUD utilizes certain gas swap and electric swap agreements under GASB No. 53 not designated as hedging derivative instruments to mitigate exposure to changes in the market price of natural gas and electricity. The fair value of each agreement, excluding the actual settlements to be paid or received as of the end of the period, is recorded in the Statements of Net Position in either Current or Noncurrent Assets, in Prepayments and other if in an asset position or Current Liabilities - Other Derivative Instruments or Noncurrent Liabilities in Self insurance and other, Other Derivative Instruments if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Statements of Net Position. The actual settlement payable is recorded in Accounts Payable in the Statements of Net Position, and the actual settlement receivable is recorded in Receivables - net: Wholesale and Other in the Statements of Net Position. The payments and receipts of the actual settlement are recorded as Investment Expense in the Statements of Revenues, Expenses and Changes in Net Position.

Interest Rate Contracts. SMUD utilized certain interest rate swap agreements not designated as hedging derivative instruments under GASB No. 53 to mitigate exposure to fluctuations in interest rates. The fair value of each agreement, excluding the balance of interest to be paid or received as of the end of the period, is recorded in the Statements of Net Position in either Current or Noncurrent Assets, Other Derivative Instruments if in an asset position or Current or Noncurrent

Liabilities, Other Derivative Instruments if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Deferred Outflows or Inflows of Resources in the Statements of Net Position. The interest receivable is recorded in Receivables - net: Wholesale and Other in the Statements of Net Position and the accrued interest is recorded in Interest Payable in the Statements of Net Position. The payments or receipts of the actual settlement are recorded as Investment Expense in the Statements of Revenues, Expenses and Changes in Net Position. At December 31 2025, SMUD does not possess any outstanding ineffective interest rate swaps.

The Board has deferred recognition of the effects of reporting the fair value of Other Derivative Instruments for ratemaking purposes and maintains regulatory accounts to defer the accounting impact of these accounting adjustments (see Note 8). Fair values may have changed significantly since December 31, 2025.

Basis Risk. This is the risk that arises when a hedged item and a derivative instrument that is attempting to hedge that item are based on different indices. SMUD is exposed to basis risk when it hedges its natural gas purchases with NYMEX futures contracts, which settle based on the price at Henry Hub, Louisiana. SMUD enters into basis swaps to hedge against this risk, which converts the Henry Hub price to the various locations where SMUD purchases natural gas. SMUD is also exposed to basis risk with the Barclays interest rate swap which is based on 1-month Fallback SOFR whereas the 2023 Series C bonds are a tax-exempt variable-rate demand note with a daily or weekly rate reset.

Termination Risk. This is the risk that a derivative instrument will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, credit events upon merger, and other events. One aspect of termination risk is that SMUD would lose the hedging benefit of a derivative instrument that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination, the mark to market value of the derivative instrument was a liability to SMUD, SMUD could be required to pay that amount to the counterparty. Termination risk is associated with all of SMUD’s derivative instruments up to the fair value amounts.

Counterparty Credit Risk. This is the risk of loss resulting when the counterparty is unable or unwilling to fulfill its present and future financial obligations. SMUD can be exposed to significant counterparty credit risk on all derivative instruments. SMUD seeks to minimize credit risk by transacting with creditworthy counterparties. SMUD has established and maintained strict counterparty credit guidelines. SMUD continuously monitors counterparty credit risk and utilizes numerous counterparties to diversify the exposure to potential defaults. Under certain conditions as outlined in SMUD’s credit risk management policy, SMUD may require additional credit support under its trading agreements.
Some of SMUD’s derivative instrument master agreements contain credit contingent provisions that enable SMUD to maintain unsecured credit as a result of positive investment quality credit ratings from each of the major credit rating agencies. If SMUD’s credit ratings were to be downgraded, there could be a step-down in SMUD’s unsecured credit thresholds, and SMUD’s counterparties would require additional collateral. If SMUD’s credit ratings were to decrease below investment grade, SMUD’s unsecured credit thresholds would be reduced to zero, and counterparties to the derivative instruments would demand ongoing full collateralization on derivative instruments in net out of the money positions (see Note 2).

Congestion Revenue Rights. In the normal course of business, SMUD acquires Congestion Revenue Rights (CRRs) as a hedge against congestion costs. While CRRs exhibit the three characteristics of derivative instruments as defined in GASB Statement No. 53, they are generally used by SMUD as factors in the cost of transmission. Therefore, these CRRs meet the normal purchases and sales scope exception and are thus reported on the Statements of Revenues, Expenses and Changes in Net Position as Transmission and distribution expenses a component of Operating Expenses.

The counterparties' credit ratings at December 31, 2025 and 2024 are shown in the table below. The credit ratings listed are from S&P or Moody's.

	December 31,	
	2025	2024
Counterparty Gas Contracts:		
Bank of Montreal	A+	A+
Barclays Bank PLC	A+	A+
Citigroup Energy	BBB+	BBB+
EDF North America	Baa3	Baa3
J.P. Morgan Ventures Energy	A	A
Merrill Lynch Commodities	A-	A-
Mitsui Bussan	A	A
Morgan Stanley Capital Group	A+	A+
Nextera	A-	A-
Royal Bank of Canada	AA-	AA-
Shell Trading Risk Management	A	A
Interest Rate Contracts:		
Barclays Bank PLC	A+	A+

NOTE 10. LONG-TERM DEBT

SMUD's total long-term debt is presented below:

	December 31,	
	2025	2024
	(thousands of dollars)	
Electric revenue bonds, 2.13%-5.0%, 2026-2054	$ 1,908,940	$ 1,898,985
Subordinated electric revenue bonds, 0.7%-5.0%, 2026-2055	432,020	332,020
Total electric revenue bonds	2,340,960	2,231,005
Component unit project revenue bonds, 5.0%, 2025	-0-	74,775
Gas and Commodity supply revenue bonds, index rates and 5.0%, 2026-2054	750,490	784,240
Total long-term debt outstanding	3,091,450	3,090,020
Bond premiums - net	281,826	299,304
Total long-term debt	3,373,276	3,389,324
Less: amounts due within one year	(130,825)	(138,065)
Total long-term debt - net	$ 3,242,451	$ 3,251,259

The summarized activity of SMUD's long-term debt during 2025 is presented below:

	January 1, 2025	Additions	Defeasance Payments or Amortization	December 31, 2025	Amounts Due Within One Year
			(thousands of dollars)		
Electric revenue bonds	$ 1,898,985	$ 100,000	$ (90,045)	$ 1,908,940	$ 94,565
Subordinate electric revenue bonds	332,020	200,000	(100,000)	432,020	-0-
Component unit project revenue bonds	74,775	-0-	(74,775)	-0-	-0-
Gas and Commodity supply revenue bonds	784,240	-0-	(33,750)	750,490	36,260
Total	3,090,020	300,000	(298,570)	3,091,450	$ 130,825
Unamortized premiums - net	299,304	31,574	(49,052)	281,826	
Total long-term debt	$ 3,389,324	$ 331,574	$ (347,622)	$ 3,373,276	

The summarized activity of SMUD's long-term debt during 2024 is presented below:

	January 1, 2024	Additions	Defeasance Payments or Amortization	December 31, 2024	Amounts Due Within One Year
			(thousands of dollars)		
Electric revenue bonds	$ 1,783,965	$ 649,610	$ (534,590)	$ 1,898,985	$ 90,045
Subordinate electric revenue bonds	332,020	-0-	-0-	332,020	-0-
Component unit project revenue bonds	87,890	-0-	(13,115)	74,775	14,270
Gas and Commodity supply revenue bonds	657,365	689,700	(562,825)	784,240	33,750
Total	2,861,240	1,339,310	(1,110,530)	3,090,020	$ 138,065
Unamortized premiums - net	197,381	147,666	(45,743)	299,304	
Total long-term debt	$ 3,058,621	$1,486,976	$ (1,156,273)	$ 3,389,324	

At December 31, 2025 scheduled annual principal maturities and interest are as follows:

	Principal	Interest	Total
		(thousands of dollars)	
2026	$ 130,825	$ 146,565	$ 277,390
2027	139,290	140,206	279,496
2028	112,085	133,859	245,944
2029	76,550	128,266	204,816
2030	82,475	125,272	207,747
2031 – 2035 (combined)	587,200	537,197	1,124,397
2036 – 2040 (combined)	643,505	391,991	1,035,496
2041 – 2045 (combined)	466,735	269,162	735,897
2046 – 2050 (combined)	529,705	157,221	686,926
2051 – 2055 (combined)	323,080	42,791	365,871
Total requirements	$ 3,091,450	$ 2,072,530	$ 5,163,980

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates, variable rate debt covered by interest rate swaps at their fixed rate, and variable rate debt not covered by interest rate swaps using the debt interest rate of 70.0 percent of 1 month SOFR plus a fixed fee. The SOFR rate is based on the rate in effect at December 31, 2025 for the issues. The 2023 Series D, 2025 Series E and 2025 Series F Put Bonds assume a 3.0 percent fixed rate coupon after mandatory remarketing. The 2024 NCEA Put Bonds assume a 5.0 percent fixed rate coupon after mandatory remarketing.

Principal in the preceding table includes known principal payments and the amortization schedule for mandatory remarketing bonds.

The following bonds have been issued and are outstanding at December 31, 2025:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount
				(thousands of dollars)	
Electric Revenue Bonds					
07/14/2016	2016 Series D Bonds	08/15/2028	2.125% - 5.0%	$ 149,890	$ 57,160
12/14/2017	2017 Series E Bonds	08/15/2028	5.0%	202,500	47,520
07/12/2018	2018 Series F Bonds	08/15/2028	5.0%	165,515	47,670
07/25/2019	2019 Series G Bonds	08/15/2041	2.375% - 5.0%	191,875	191,875
05/07/2020	2020 Series H Bonds	08/15/2050	4.0% - 5.0%	400,000	400,000
07/14/2021	2021 Series I Bonds	08/15/2028	5.0%	106,875	69,750
06/23/2022	2022 Series J Bonds	08/15/2033	5.0%	132,725	87,870
06/22/2023	2023 Series K Bonds	08/15/2053	5.0%	200,000	200,000
06/22/2023	2023 Series L Bonds	08/15/2033	5.0%	61,115	57,485
04/11/2024	2024 Series M Bonds	11/15/2054	5.0%	250,000	250,000
04/11/2024	2024 Series N Bonds	11/15/2036	5.0%	399,610	399,610
06/26/2025	2025 Series O Bonds	09/15/2040	5.0%	100,000	100,000
Subordinated Electric Revenue Bonds					
06/23/2023	2023 Series C Bonds	08/15/2041	0.7%	132,020	132,020
06/22/2023	2023 Series D Bonds	08/15/2048	5.0%	100,000	100,000
06/26/2025	2025 Series E Bonds	08/15/2049	5.0%	100,000	100,000
06/26/2025	2025 Series F Bonds	08/15/2055	5.0%	100,000	100,000
JPA Revenue Bonds					
05/31/2007	2007B NCGA#1 Bonds	07/01/2027	Index Rate	668,470	66,245
04/05/2024	2024 NCEA Bonds	12/01/2054	5.0%	689,700	684,245

2025 Bond Issuances. In June 2025, SMUD issued $100 million of 2025 Series E Subordinate Electric Revenue Refunding Bonds. The purpose of this transaction was to refund the fixed rate debt associated with 2019 Series B bonds and reimburse SMUD for capital projects in 2024. Proceeds from the 2025 Series E bonds defeased all the outstanding Series 2019 Series B bonds. A total of $100 million of bonds were defeased through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt - net in the Statements of Net Position. As of December 31, 2025, none of the defeased bonds remain outstanding. The 2025 Series E Subordinate Bonds have a fixed interest coupon rate of 5.0 percent, amortized from 2042 to 2049, with an optional call date beginning April 15, 2032, and a mandatory purchase date of October 15, 2032. The refunding resulted in the recognition of a deferred accounting gain of $0.9 million as well as an increase in total debt service payments of $180.5 thousand and an economic loss of $191.5 thousand, which is the difference between the present values of the old and new debt service payments. The escrow agreement does not permit the substitution of essentially risk-free monetary assets with other assets.

In June 2025, SMUD issued $100 million of 2025 Series O Electric Revenue Bonds and $100 million of 2025 Series F Subordinate Electric Revenue Bonds. The 2025 Series O Bonds have a fixed coupon rate of 5.0 percent and amortize from 2029 to 2040. The 2025 Series F Subordinate Bonds have a fixed interest coupon rate of 5.0 percent, amortized from 2041 to 2049, with an optional call date beginning April 15, 2031, and a mandatory remarketing purchase date of October 15, 2031. Proceeds from the 2025 Series O Revenue Bonds and the 2025 Series F Subordinate Revenue Bonds were used to refund $75 million of outstanding commercial paper and reimburse SMUD for capital spending in 2023 and 2024.

Component Unit Bond Defeasance. In May 2025, SFA used $76.3 million of funds on hand to establish an escrow for the purpose of defeasing the 2015 Series Bonds which were to mature on July 1, 2025, and all the $60.5 million of 2015 Series Bonds were callable on July 1, 2025. The defeasance resulted in a current accounting gain of $2.9 million which is included in Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2025, non of the defeased bonds remain outstanding. The escrow agreement does not permit the substitution of essentially risk-free monetary assets with other assets.

2024 Bond Issuances. In April 2024, SMUD issued $399.6 million of 2024 Series N Revenue Refunding Bonds. The purpose of this transaction was to refund the fixed rate debt associated with 2009 Series V and 2010 Series W bonds. Proceeds from the 2024 Series N bonds defeased all the outstanding Series 2009 Series V and 2010 Series W bonds. A total of $450 million of bonds were defeased through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt - net in the Statements of Net Position. The refunding resulted in the recognition of a deferred accounting loss of $26.9 million, which is being amortized over the life of the refunding issue. The 2024 Series N Refunding bonds reduced future aggregate debt service payments by $23.7 million and resulted in a total economic gain of $21.3 million, which is the difference between the present value of the old and new debt service payments.

In April 2024, SMUD issued $250 million of 2024 Series M Revenue Bonds. The 2024 Series M Bonds have a fixed coupon rate of 5.0 percent and amortize from 2037 to 2054. Proceeds from the 2024 Series M Bonds were used to refund $150 million of outstanding commercial paper and reimburse SMUD for capital expenses previously incurred.

2024 Commodity Supply Revenue Bond Issuance. In April 2024, NCEA issued $689.7 million of 2024 Commodity Supply Revenue Refunding bonds (2024 Bonds). The 2024 Bonds mature in December 2054 and come with a mandatory tender purchase in August 2030. The purpose of this transaction was to refund the debt associated with 2018 Commodity Supply Revenue bonds (2018 Bonds). Proceeds from the 2024 Bonds refunded all the outstanding 2018 Bonds. A total of $537.3 million of bonds were defeased through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-term debt - net in the Statements of Net Position. The refunding resulted in the recognition of a deferred gain on bond refunding of $2.9 million, which is being amortized over the life of the refunding issue. The refunding increased future aggregate debt service payments by $97.5 million due to the bond term extension and resulted in a total economic gain of $8.4 million, which is the difference between the present value of the old and new debt service payments.

Terms of Debt Indentures. Debt indentures contain a provision that in an event of default, the holders of the majority of the debt outstanding are entitled to declare the outstanding amounts due immediately.

Interest Rate Swap Agreements. A summary of SMUD's interest rate swap agreement as of December 31, 2025 is as follows. The credit ratings listed are from S&P.

Notional Amount (thousands)	SMUD Pays	Fixed Rate	Floating Rate	Termination Date	Counterparty Credit Rating
$ 132,020	Fixed	0.7179%	70% of 1M Fallback SOFR	08/15/2041	A+

A summary of SMUD's interest rate swap agreement as of December 31, 2024 are as follows:

Notional Amount (thousands)	SMUD Pays	Fixed Rate	Floating Rate	Termination Date	Counterparty Credit Rating
$ 132,020	Fixed	0.7179%	70% of 1M Fallback SOFR	08/15/2041	A+

Component Unit Interest Rate Swap Agreements. NCGA had one interest rate swap agreement as of December 31, 2025, which is summarized as follows. The credit ratings listed are from S&P.

Notional Amount (thousands)	NCGA Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating
$ 66,245	Fixed	4.304%	67% of 3M SOFR + .895%	07/01/27	A+

NCGA had one interest rate swap agreement as of December 31, 2024, which is summarized as follows. The credit ratings listed are from S&P.

Notional Amount (thousands)	NCGA Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating
$ 94,540	Fixed	4.304%	67% of 3M SOFR + .895%	07/01/27	A+

At December 31, 2025 and 2024, NCGA had a variable-to-fixed interest rate swap agreement with a counterparty for the purpose of fixing the effective interest rate associated with the 2007 Series B Bonds. NCGA pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three-month SOFR (3.67 percent at December 31, 2025 and SOFR rate of 4.33 percent at December 31, 2024) plus an interest rate spread, as specified in the swap agreement. The total notional amount of the swap at December 31, 2025 and 2024 was $66.2 million and $94.5 million, respectively, and was equivalent to the outstanding principal balance on the NCGA Bonds. The swap is amortized over the life of the swap agreement in a manner corresponding to the principal repayment schedule of the NCGA Bonds. Early termination of the swap would occur upon termination of the prepaid agreement for any reason. Upon early termination, the swap would have no value to either party.

Subordinated Electric Revenue Bonds. Payment of and interest on the Subordinated Electric Revenue Bonds is subordinate to the payment of the principal and interest on SMUD's Electric Revenue Bonds.

Component Unit Bonds. The component units of SMUD have each issued bonds to finance their respective projects. The revenue stream to pay NCGA and NCEA bonds' debt service is provided by "take-and-pay" purchase agreements. Therefore, principal and interest associated with these bonds are paid solely from the revenues and receipts collected in connection with the operation of the project. Most operating revenues earned by NCGA and NCEA are collected from SMUD in connection with the sale of gas or electricity to SMUD. The ability for NCGA and NCEA to service debt is dependent on various parties (particularly MSCG, as gas supplier for NCGA and J. Aron, as commodity supplier for NCEA) meeting their contractual obligations.

Callable Bonds. SMUD has $170.8 million of Electric Revenue Bonds that are currently callable, $132.0 million of the 2023 Series C bonds, and $38.8 million of 2016 Series D Bonds. From 2026 through 2030, SMUD has $556.7 million that become callable. SMUD also has a six-month call period on the 2023 Series D, 2025 Series E and 2025 Series F in advance of their mandatory remarketing date in 2030, 2031 and 2032 respectively.

Collateral. The principal and interest on SMUD's bonds are payable exclusively from, and are collateralized by, a pledge of the net revenues of SMUD's electric system. Neither the credit nor the taxing power of SMUD is pledged to the payment of the bonds and the general fund of SMUD is not liable for the payment thereof.

Covenants. SMUD's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios, certain other financial ratios, stipulated minimum funding of revenue bond reserves, and various other requirements including a rate covenant to raise rates to maintain minimum debt service coverage.

SMUD has pledged future net electric revenues to repay electric revenue and electric revenue refunding bonds issued from 2016 to 2025. Proceeds from the bonds provided financing for various capital improvement projects, component unit capital projects, and to refund previously issued bonds. The bonds are payable solely from the net revenues generated by SMUD's electrical sales and are payable through 2054 as of December 31, 2025.

Additionally SMUD has pledged net gas supply prepayment revenues to repay gas supply prepayment revenue bonds issued from 2007 through 2024. Proceeds from the bonds provided financing for the prepayment of a 20 year supply of fuel and a 30 year supply of commodity. The bonds are payable solely from the net revenues generated by the gas supply prepayment revenues and are payable through 2054 at December 31, 2025.

GASB Statement No. 48, ***"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,"*** disclosures for pledged revenues are as follows:

	December 31,	
	2025	2024
	(thousands of dollars)	
Pledged future revenues	$ 2,340,960	$ 2,231,005
Principal and interest payments for the year ended	$ 196,500	$ 197,826
Total net revenues for the year ended	$ 788,759	$ 599,876
Total remaining principal and interest to be paid	$ 3,818,614	$ 3,588,393
Annual principal and interest payments as a percent of net revenues for the year ended	25%	33%

NOTE 11. COMMERCIAL PAPER NOTES

SMUD issues Commercial Paper Notes (Notes) to finance or reimburse capital expenditures. SMUD's commercial paper program is $400.0 million. At December 31, 2025 and 2024, there were no Notes outstanding. SMUD's commercial paper program is backed by $409.9 million in letter of credit agreements (LOCs) with two banks. Additionally, SMUD has a $100 million revolving credit agreement with Wells Fargo Bank. As of December 31, 2025 and 2024, all $100 million of the Lines of Credit remained unused and available. The LOCs are calculated as the sum of the maximum principal amount of the Notes plus interest thereon at a maximum rate of ten percent per annum for a period of 90 days calculated on the basis of a year of 365 days and the actual number of days elapsed. There have not been any term advances under the LOCs or the revolving credit agreement. The LOCs and revolving credit agreement contain a provision that in an event of default, the outstanding amounts may become immediately due.

The summarized activity of SMUD's Notes during 2025 and 2024 is presented below:

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
		(thousands of dollars)		
December 31, 2025	$ -0-	$ 75,000	$ (75,000)	$ -0-
December 31, 2024	$ 150,000	$ -0-	$ (150,000)	$ -0-

NOTE 12. FAIR VALUE MEASUREMENT

GASB No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SMUD utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

GASB No. 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB No. 72 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect SMUD's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are as follows:

- U.S. Government Agency Obligations – uses a market-based approach which considers yield, price of comparable securities, coupon rate, maturity, credit quality and dealer-provided prices.
- U.S. Treasury Obligations – uses a market approach based on institutional bond quotes. Evaluations are based on various market and industry inputs.
- Corporate Notes – uses a market-based approach. Evaluations are based on various market and industry inputs.
- Municipal Bonds – uses a market approach based on institutional bond quotes. Evaluations are based on various market and industry inputs.
- Hedging and Other Derivative Instruments:
  - Interest rate swap agreements – uses the present value technique. The fair value of the interest rate swap agreements are calculated by discounting the expected cash flows. The cash flows and discount rates are estimated based on a 1-month SOFR forward curve from Bloomberg and assuming SIFMA is equal to 70.0 percent of 1-month SOFR.
  - Gas and Electric related agreements – uses the market approach based on monthly quoted prices from an independent external pricing service. The fair values for natural gas and electricity derivative financial instruments are calculated based on prevailing market quotes in active markets (i.e., Henry Hub and So Cal) where identical contracts are available. When external quoted market prices are not available, SMUD uses an internally developed valuation model utilizing short-term-observable inputs.

The following tables identify the level within the fair value hierarchy that SMUD's financial assets and liabilities were accounted for on a recurring basis as of December 31, 2025 and 2024, respectively. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. SMUD's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Recurring Fair Value Measures	At fair value as of December 31, 2025		
	Level 1	Level 2	Total
	(thousands of dollars)		
Investments, including cash and cash equivalents:			
U.S. Government Agency Obligations	$ -0-	$ 9,881	$ 9,881
U.S. Treasury Obligations	725,083	-0-	725,083
Corporate Notes	-0-	65,625	65,625
Municipal Bonds	-0-	10,188	10,188
Total Investments, including cash and cash equivalents	$ 725,083	$ 85,694	$ 810,777
Other Derivative Instrument Assets:			
Gas related agreements	$ 49	$ -0-	$ 49
Total Other Derivative Instrument Assets	$ 49	$ -0-	$ 49
Hedging Derivative Instrument Assets:			
Gas related agreements	$ 6,735	$ -0-	$ 6,735
Electric related agreements	11,522	-0-	11,522
Interest rate swap agreements	-0-	28,399	28,399
Total Hedging Derivative Instrument Assets	$ 18,257	$ 28,399	$ 46,656
Other Derivative Instrument Liabilities:			
Gas related agreements	$ 1,481	$ -0-	$ 1,481
Interest rate swap agreements	-0-	-0-	-0-
Total Other Derivative Instrument Liabilities	$ 1,481	$ -0-	$ 1,481
Hedging Derivative Instrument Liabilities:			
Gas related agreements	$ 64,236	$ -0-	$ 64,236
Electric related agreements	571	-0-	571
Interest rate swap agreements	-0-	-0-	-0-
Total Hedging Derivative Instrument Liabilities	$ 64,807	$ -0-	$ 64,807

Recurring Fair Value Measures	At fair value as of December 31, 2024		
	Level 1	Level 2	Total
	(thousands of dollars)		
Investments, including cash and cash equivalents:			
U.S. Government Agency Obligations	$ -0-	$ 77,314	$ 77,314
U.S. Treasury Obligations	469,146	-0-	469,146
Corporate Notes	-0-	89,535	89,535
Municipal Bonds	-0-	11,766	11,766
Total Investments, including cash and cash equivalents	$ 469,146	$ 178,615	$ 647,761
Other Derivative Instrument Assets:			
Gas related agreements	$ 80	$ -0-	$ 80
Total Other Derivative Instrument Assets	$ 80	$ -0-	$ 80
Hedging Derivative Instrument Assets:			
Gas related agreements	$ 15,560	$ -0-	$ 15,560
Electric related agreements	6,718	-0-	6,718
Interest rate swap agreements	-0-	31,867	31,867
Total Hedging Derivative Instrument Assets	$ 22,278	$ 31,867	$ 54,145
Other Derivative Instrument Liabilities:			
Gas related agreements	$ 701	$ -0-	$ 701
Interest rate swap agreements	-0-	-0-	-0-
Total Other Derivative Instrument Liabilities	$ 701	$ -0-	$ 701

Hedging Derivative Instrument Liabilities:			
Gas related agreements	$ 40,229	$ -0-	$ 40,229
Electric related agreements	-0-	-0-	-0-
Interest rate swap agreements	-0-	-0-	-0-
Total Hedging Derivative Instrument Liabilities	$ 40,229	$ -0-	$ 40,229

NOTE 13. ACCRUED DECOMMISSIONING LIABILITY

Asset Retirement Obligations (ARO). SMUD recognizes AROs for its Rancho Seco nuclear power plant facility and the Carson power plant facility. GASB No. 83 requires measurement of the ARO be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should be determined using all available evidence and requires probability weighting of potential outcomes when sufficient evidence is available. This statement also requires the current value be adjusted for the effects of the general inflation or deflation and an evaluation of relevant factors that may significantly change the estimated asset retirement outlays at least annually.

Rancho Seco Nuclear Power Plant. With the completion of nuclear decommissioning of the former 913 MW nuclear power plant, and the subsequent termination of the 10 Code of Federal Regulations (CFR) 50 license by the Nuclear Regulatory Commission (NRC) effective August 31, 2018, all remaining Rancho Seco decommissioning liability relates to the Independent Spent Fuel Storage Installation (ISFSI) licensed under 10 CFR Part 72. Nuclear decommissioning is the process of safely removing nuclear facilities from service and reducing residual radioactivity to a level that permits termination of the NRC licenses and release of the property for unrestricted use. Final decommissioning of the ISFSI will occur after the spent nuclear fuel (SNF) and Greater Than Class C (GTCC) radioactive waste is removed from the site and SMUD demonstrates that the site is suitable for release in accordance with release criteria specified in 10 CFR 20, Subpart E and an approved License Termination Plan.

The Department of Energy (DOE), under the Nuclear Waste Policy Act (NWPA) of 1982 as amended, is responsible for permanent disposal of spent nuclear fuel and GTCC radioactive waste, which are currently stored in the Part 72 licensed ISFSI. SMUD has a contract with the DOE for the removal and disposal of SNF and GTCC waste. All SMUD's SNF and GTCC waste are currently stored in sealed canisters in the ISFSI. However, the date when DOE will remove the fuel and GTCC waste is uncertain. In 2010, the DOE formally withdrew the application for licensing of Yucca Mountain as a high-level waste repository. The DOE also announced in January 2010 the creation of a Blue-Ribbon Commission to study alternatives for developing a repository for the nation's used nuclear fuel. The Commission provided a final report on alternatives in January 2012. The DOE evaluated the recommendations and published the report "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in January 2013.

The next phase of the process will be for Congress and the President of the United States to consider the recommendations and enact legislation to implement the recommendations. At this time, two license applications have been submitted to the NRC for the construction and operation of Consolidated Interim Storage Facility(s) that would store SNF and GTCC waste on an interim basis. One of these applications has been approved (and a license issued) and one application is currently under review by the NRC. Should the NRC license one or both facilities, Congress will have to modify the NWPA to allow for its use. In May 2018, the U.S. House of Representatives passed H.R. 3053 – the Nuclear Waste Policy Amendments Act, which was co-sponsored by Representative Doris Matsui and 109 other members of Congress. This bill includes a provision to allow a Consolidated Interim Storage Facility to store fuel from permanently shut down sites like Rancho Seco. The U.S. Senate did not act on the bill. Until legislation is passed which includes a significant step towards removal of the used nuclear fuel at the Rancho Seco facility, SMUD is committed to the safe and secure storage of its SNF and GTCC waste under its Part 72 license until DOE fulfills its obligation to dispose of this material in accordance with NWPA. In support of this commitment, SMUD submitted its ISFSI license renewal application to the NRC in March of 2018. The NRC issued Renewed Licensee No. SNM-2510 on March 9, 2020. This renewed license authorizes the continued storage of SMUD's SNF and GTCC until June 30, 2060.

The Rancho Seco decommissioning liability is based on an internal study of the remaining decommissioning costs, which consist of: 1) annual spent fuel management costs, 2) transportation of the canisters in the ISFSI and 3) termination of the Part 72 license. The largest part of the decommissioning estimate is the annual spent fuel management costs; next year's annual budget is used for the estimate. The other costs were estimated based on prior experience and studies and prepared by management representatives of the nuclear power plant facility. The transportation costs of the canisters in the ISFSI estimate were in 2019 dollars. The termination of the Part 72 license costs in the estimate were in 2022 dollars. An employment cost index was used to adjust the other costs portion of the obligation for inflation in 2025. Probability weighting was assigned for two scenarios: 1) spent nuclear fuel will be removed from the site by 2034 and 2) spent nuclear fuel will be removed from the site by 2041. SMUD uses its Trust Fund (see Note 2) to demonstrate financial assurance to the NRC that there are enough funds to complete the termination of the Part 72 license; the balance of the Trust Fund at December 31, 2025 is $10.3 million.

Carson Power Plant (Carson). SMUD's ground lease agreement with the Sacramento Regional County Sanitation District for Carson requires SMUD to restore the premises to its original condition upon termination of the contract. A new study to determine the current value of the asset retirement obligation was conducted by an external contractor who specializes in decommissioning studies. The expected costs and scope of work were based on the most recent cost estimate and assumes a contractor will be responsible for the work and that decommissioning would take place between 2025 and 2027. The estimated costs were in 2018 dollars. The result of this study was used to determine the new balance of the ARO and the deferred outflows at January 1, 2018, in order to account for the 2018 activity. The annual All Urban Consumer Price Index was used to adjust this obligation for inflation in 2025.

The current portion of the Accrued Decommissioning liability represents SMUD's estimate of actual expenditures for Rancho Seco in the next year, as set forth in the annual budget.

At December 31, 2025 and 2024, SMUD's Accrued Decommissioning balance in the Statements of Net Position was $132.9 million and $118.8 million, respectively.

NOTE 14. PENSION PLANS

Summary of Significant Accounting Policies. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (PERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description and Benefits Provided. SMUD participates in PERS, an agent multiple-employer public employee defined benefit pension plan (PERS Plan). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and SMUD policies. The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age, and final compensation. A full description of the pension plan regarding number of employees covered, benefit provision, assumptions (for funding, but not accounting purposes), and membership information are included in the annual actuarial valuation reports as of June 30, 2024 and June 30, 2023.

GASB No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. The following timeframes are used for the year ended:

PERS Plan	December 31,	
	2025	2024
Valuation date	June 30, 2024	June 30, 2023
Measurement date	June 30, 2025	June 30, 2024

Employees Covered by Benefit Terms. The following employees were covered by the benefit terms for the year ended:

PERS Plan	December 31,	
	2025	2024
Inactive employees or beneficiaries currently receiving benefit payments	3,258	3,217
Inactive employees entitled to but not yet receiving benefit payments	1,082	1,048
Active employees	2,323	2,282
Total employees covered by benefit terms	6,663	6,547

Contributions. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through PERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the PERS fiscal years ended June 30, 2025 and 2024, the average active employee contribution rate is 7.1 percent of annual pay. For the PERS fiscal year ended June 30, 2025, the employer's contribution rate is 9.5 percent of annual payroll plus $10.7 million for the unfunded accrued liability contributions. For the PERS fiscal year ended June 30, 2024, the employer's contribution rate is 9.6 percent of annual payroll. Employer contribution rates may change if plan contracts are amended. For the fiscal years ended June 30, 2025 and 2024, SMUD made contributions recognized by the PERS Plan in the amount of $66.2 million and $62.1 million, respectively.

Net Pension Asset (NPA) or Liability (NPL). SMUD's NPA or NPL at December 31, 2025 and 2024 was measured at June 30, 2025 and 2024, respectively. The total pension liability used to calculate the NPA or NPL was determined by actuarial valuations as of June 30, 2024 and 2023 rolled forward using generally accepted actuarial procedures to the June 30, 2025 and 2024 measurement dates for the PERS Plan.

Actuarial Methods and Assumptions. The actuarial methods and assumptions used for the December 31, 2025 and December 31, 2024 total pension liabilities are as follows:

Actuarial Cost Method	Entry age actuarial cost method
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by entry age and service
Mortality Rate Table	The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2021 *CalPERS Experience Study and Review of Actuarial Assumptions*. Mortality rates incorporate full generational mortality improvement using 80% of scale MP-2020 published by the Society of Actuaries.
Post Retirement Benefit Increase	For 2024 and 2025, the lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter.

Discount Rates. For the PERS Plan, the discount rate used to measure the total pension liability for the years ended December 31, 2025 and 2024 was 6.90 percent. For the year ended December 31, 2025, this is based on the long-term expected rate of return on plan assets and is net of investment expenses but not reduced for administrative expenses. In determining the long-term expected rate of return, CalPERS took into account 20-year market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates to project compound (geometric) returns over the long term.

The expected real rates of return by asset class used for December 31, 2025 are as follows:

Asset Class	Current Target Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public Equity	37.0%	4.56%
Private Equity	17.0%	5.56%
Fixed Income	28.0%	2.53%
Real Assets	15.0%	3.03%
Private Debt	8.0%	4.93%
Strategic Leverage	(5.0%)	1.40%

The expected real rates of return by asset class used for December 31, 2024 are as follows:

Asset Class	Current Target Assumed Asset Allocation	Real Return
Global Equity – Cap-weighted	30.0%	4.54%
Global Equity – Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Estate	15.0%	3.21%
Leverage	(5.0%)	(0.59%)

Changes in the NPA or NPL. The following table shows the changes in NPA or NPL recognized over the year ended December 31, 2025:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
		(thousands of dollars)	
Balances at January 1, 2025	$ 2,874,327	$ 2,565,913	$ 308,414
Changes recognized for the measurement period:			
Service cost	48,210	-0-	48,210
Interest	197,469	-0-	197,469
Changes in benefit terms	-0-	-0-	-0-
Changes in assumptions	-0-	-0-	-0-
Differences between expected and actual experience	48,559	-0-	48,559
Contributions - employer	-0-	66,245	(66,245)
Contributions - employee	-0-	23,124	(23,124)

Net investment income	-0-	305,454	(305,454)
Benefit payments	(170,248)	(170,248)	-0-
Administrative expense	-0-	(1,833)	1,833
Net changes	123,990	222,742	(98,752)
Balances at December 31, 2025	$ 2,998,317	$ 2,788,655	$ 209,662

Changes in the NPA or NPL. The following table shows the changes in NPA or NPL recognized over the year ended December 31, 2024:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
		(thousands of dollars)	
Balances at January 1, 2024	$ 2,679,268	$ 2,420,258	$ 259,010
Changes recognized for the measurement period:			
Service cost	46,378	-0-	46,378
Interest	189,234	-0-	189,234
Changes in benefit terms	-0-	-0-	-0-
Changes in assumptions	-0-	-0-	-0-
Differences between expected and actual experience	120,696	-0-	120,696
Contributions - employer	-0-	62,116	(62,116)
Contributions - employee	-0-	21,417	(21,417)
Net investment income	-0-	225,340	(225,340)
Benefit payments	(161,249)	(161,249)	-0-
Administrative expense	-0-	(1,969)	1,969
Net changes	195,059	145,655	49,404
Balances at December 31, 2024	$ 2,874,327	$ 2,565,913	$ 308,414

Sensitivity of the NPA or NPL to Changes in the Discount Rate. The following presents the NPA or NPL of the Plan as of the measurement date, calculated using the current discount rate, as well as what the NPA or NPL would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

PERS Plan	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
		(thousands of dollars)	
Plan's NPL (NPA), December 31, 2025	$ 585,384	$ 209,662	$ (102,832)

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
Plan's NPL (NPA), December 31, 2024	$ 670,730	$ 308,414	$ 7,220

Pension Plan Fiduciary Net Position. Detailed information about the PERS Plan's fiduciary net position is available in the separately issued PERS Plan financial statements. This report, the audited financial statements, and other reports can be obtained at the PERS' website at www.calpers.ca.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the years ended December 31, 2025 and 2024, SMUD recognized pension expense of $50.7 million and $52.4 million, respectively.

At December 31, 2025 and 2024, SMUD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31,	
	2025	2024
	(thousands of dollars)	
Deferred outflows of resources:		
Changes of assumptions	$ 640	$ 7,049
Differences between expected and actual experience	111,935	118,058
Net differences between projected and actual earnings on pension plan investments	-0-	44,553
Employer's contributions to the Plan subsequent to the measurement of total pension liability	38,194	24,474
Total deferred outflows of resources	$ 150,769	$ 194,134
Deferred inflows of resources:		
Changes of assumptions	$ -0-	$ -0-
Differences between expected and actual experience	765	8,416
Net differences between projected and actual earnings on pension plan investments	62,115	-0-
Total deferred inflows of resources	$ 62,880	$ 8,416

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be subject to regulatory accounting as follows (see Note 8):

Year ended December 31:	
2026	$ 92,154
2027	6,360
2028	(23,729)
2029	(25,090)
2030	-0-
Thereafter	-0-

Other Plans. SMUD provides its employees with two cash deferred compensation plans: one pursuant to Internal Revenue Code (IRC) Section 401(k) (401(k) Plan) and one pursuant to IRC Section 457 (457 Plan) (collectively, the Plans). The Plans are contributory plans in which SMUD's employees contribute the funds. Each of SMUD's eligible full-time or permanent part-time employees may participate in either or both Plans, and amounts contributed are vested immediately. Such funds are held by a Trustee in trust for the employees upon retirement from SMUD service and, accordingly, are not subject to the general claims of SMUD's creditors. SMUD is responsible for ensuring compliance with IRC requirements concerning the Plans and has the fiduciary duty of reasonable care in the selection of investment alternatives, but neither SMUD, nor its Board or officers have any liability for market variations in the Plans' asset values. SMUD employees are responsible for determining how their funds are to be invested and pay all ongoing fees related to the Plans. The Plans are currently not subject to discrimination testing, nor the requirements of the Employee Retirement Income Security Act of 1974. SMUD employees participating in the Plans are allowed to contribute a portion of their gross income not to exceed the annual dollar limits prescribed by the IRC.

SMUD makes annual contributions to the 401(k) Plan on behalf of certain employees pursuant to a memorandum of understanding with both of its collective bargaining units. SMUD also matches non-represented employee contributions to the 401(k) Plan up to a set amount. SMUD made contributions into the 401(k) Plan of $8.1 million in 2025 and $7.5 million in 2024. SMUD does not match employee contributions, nor make contributions on behalf of its employees to the 457 Plan. Participating employees made contributions into both Plans totaling $38.5 million in 2025 and $36.0 million in 2024.

NOTE 15. OTHER POSTEMPLOYMENT BENEFITS

Summary of Significant Accounting Policies. For purposes of measuring the net OPEB asset or liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the California Employers' Retiree Benefit Trust (CERBT). For this purpose, SMUD recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description and Benefits Provided. SMUD is a member of CERBT. The CERBT Fund is an IRC Section 115 Trust set up for the purpose of receiving employer contributions to prefund OPEB for retirees and their beneficiaries. CERBT is an agent multiple-employer defined benefit OPEB plan (OPEB Plan) administered by PERS. The OPEB Plan provides medical, dental and long-term disability benefits for retirees and their beneficiaries, in accordance with SMUD policy and negotiated agreements with employee representation groups. The benefit, benefit levels, retiree contributions and employer contributions are governed by SMUD and can be amended by SMUD through its personnel manual and union contracts. Any changes to these benefits would be approved by SMUD's Board and unions.

Employees Covered by Benefit Terms. The following employees were covered by the benefit terms:

	December 31,	
	2025	2024
Inactive employees or beneficiaries currently receiving benefit payments	2,454	2,410
Inactive employees entitled to but not yet receiving benefit payments	44	47
Active employees	2,327	2,261
Total employees covered by benefit terms	4,825	4,718

Contributions. OPEB contributions are elective and not required. In December 2018, SMUD split its CERBT assets across two asset strategies to better align trust assets with liabilities (Strategy 1 for active employees and retirements after June 30, 2018 and Strategy 3 for retirements before July 1, 2018). SMUD contributes the normal cost to the CERBT, and annually receives reimbursement for cash benefit payments from the CERBT. SMUD may also elect to put additional contributions into the OPEB Plan. For the OPEB Plan's fiscal years ended June 30, 2025 and 2024, SMUD made contributions recognized by the OPEB Plan in the amounts of $11.6 million and $11.3 million, respectively.

Net OPEB Asset (NOA) or Liability (NOL). SMUD's NOL at December 31, 2025 and 2024 were measured as of June 30, 2025 and 2024, respectively, and the total OPEB liability used to calculate the NOL was determined by actuarial valuations as of those dates.

Actuarial Methods and Assumptions. The actuarial methods and assumptions used for the December 31, 2025 and December 31, 2024 total OPEB liabilities are as follows:

Discount Rate	5.93% (2025). Blended discount rate based on projected benefit streams expected to be paid from each Strategy. 6.02% (2024)
General Inflation	2.50% (2025 and 2024)
Mortality, Retirement, Disability, Termination	CalPERS 2000-2019 Experience Study (2025 and 2024)
Mortality Improvement	Mortality projected fully generational with Scale MP-2021 (2025 and 2024)
Salary Increases	Aggregate – 2.75%; Merit - CalPERS 2000-2019 Experience Study (2025 and 2024)
Healthcare Cost Trend Rates	Non-Medicare: 7.35% for 2027, decreasing to an ultimate rate of 3.45% in 2076 (2025), 7.90% for 2026, decreasing to an ultimate rate of 3.45% in 2076 (2024) Medicare: 6.50% for 2027, decreasing to an ultimate rate of 3.45% in 2076 (2025), 6.90% for 2026, decreasing to an ultimate rate of 3.45% in 2076 (2024)

Kaiser Medicare: 5.45% for 2027, decreasing to an ultimate rate of 3.45% in 2076 (2025), 5.65% for 2026, decreasing to an ultimate rate of 3.45% in 2076 (2024)

Discount Rates. For the OPEB Plan, the discount rate used to measure the total OPEB liability was 5.93 percent and 6.02 percent for the years ended December 31, 2025 and 2024, respectively. This rate is a blended discount rate based on projected benefit streams expected to be paid from Strategies 1 and 3. The projection of cash flows used to determine the discount rate assumed that SMUD contributes the full normal cost to the trust and only takes reimbursement from the trust of the cash benefit payments. Because the implied subsidy benefit payments have a larger present value than the payments toward the unfunded accrued liability, there should be sufficient plan assets to pay all benefits from the trust. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. The long-term expected rate of return of 6.25 percent for Strategy 1 and 5.25 percent for Strategy 3 was applied to all periods of projected benefit payments to determine the total OPEB liability for the years ended December 31, 2025 and 2024.

The expected real rates of return by asset class used and presented as geometric means for December 31, 2025 are as follows:

Asset Class	Target Allocation CERBT Strategy 1	Expected Real Rate of Return
Global Equity	49.0%	4.56%
Fixed Income	23.0%	1.56%
TIPS	5.0%	(0.08%)
Commodities	3.0%	1.22%
REITs	20.0%	4.06%

Asset Class	Target Allocation CERBT Strategy 3	Expected Real Rate of Return
Global Equity	23.0%	4.56%
Fixed Income	51.0%	1.56%
TIPS	9.0%	(0.08%)
Commodities	3.0%	1.22%
REITs	14.0%	4.06%

The expected real rates of return by asset class used and presented as geometric means for December 31, 2024 are as follows:

Asset Class	Target Allocation CERBT Strategy 1	Expected Real Rate of Return
Global Equity	49.0%	4.56%
Fixed Income	23.0%	1.56%
TIPS	5.0%	(0.08%)
Commodities	3.0%	1.22%
REITs	20.0%	4.06%

Asset Class	Target Allocation CERBT Strategy 3	Expected Real Rate of Return
Global Equity	23.0%	4.56%
Fixed Income	51.0%	1.56%
TIPS	9.0%	(0.08%)
Commodities	3.0%	1.22%
REITs	14.0%	4.06%

Changes in the NOA or NOL. The following table shows the changes in NOA or NOL recognized over the year ended December 31, 2025:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) – (b)
		(thousands of dollars)	
Balances at January 1, 2025	$ 425,935	$ 391,803	$ 34,132
Changes recognized for the measurement period:			
Service cost	8,983	-0-	8,983
Interest	25,417	-0-	25,417
Changes in assumptions	4,635	-0-	4,635
Differences between expected and actual experience	30,227	-0-	30,227
Contributions - employer	-0-	11,597	(11,597)
Net investment income	-0-	43,474	(43,474)
Benefit payments	(25,426)	(25,426)	-0-
Administrative expense	-0-	(134)	134
Net changes	43,836	29,511	14,325
Balances at December 31, 2025	$ 469,771	$ 421,314	$ 48,457

The following table shows the changes in NOA or NOL recognized over the year ended December 31, 2024:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) – (b)
		(thousands of dollars)	
Balances at January 1, 2024	$ 397,699	$ 372,365	$ 25,334
Changes recognized for the measurement period:			
Service cost	8,709	-0-	8,709
Interest	23,720	-0-	23,720
Changes in assumptions	-0-	-0-	-0-
Differences between expected and actual experience	20,552	-0-	20,552
Contributions - employer	-0-	11,250	(11,250)
Net investment income	-0-	33,053	(33,053)
Benefit payments	(24,745)	(24,745)	-0-
Administrative expense	-0-	(120)	120
Net changes	28,236	19,438	8,798
Balances at December 31, 2024	$ 425,935	$ 391,803	$ 34,132

Sensitivity of the NOA or NOL to Changes in the Discount Rate. The following presents the NOA or NOL of SMUD as of the measurement date, calculated using the current discount rate, as well as what the NOA or NOL would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

	1% Decrease (4.93%)	Current Discount Rate (5.93%)	1% Increase (6.93%)
		(thousands of dollars)	
NOL/(NOA), December 31, 2025	$ 105,379	$ 48,457	$ 843

	1% Decrease (5.02%)	Current Discount Rate (6.02%)	1% Increase (7.02%)
		(thousands of dollars)	
NOL/(NOA), December 31, 2024	$ 85,371	$ 34,132	$ (8,752)

Sensitivity of the NOA or NOL to Changes in the Healthcare Cost Trend Rates. The following presents the NOA or NOL of SMUD as of the measurement date, calculated using the current healthcare cost trend rate, as well as what the NOA or NOL would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current healthcare trend rate (see assumptions above for healthcare trend rate):

	1% Decrease	Current Healthcare Trend Rate	1% Increase
		(thousands of dollars)	
(NOA)/ NOL, December 31, 2025	$ (4,228)	$ 48,457	$ 112,819
(NOA)/ NOL, December 31, 2024	$ (13,227)	$ 34,132	$ 91,933

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued OPEB Plan's report. This report can be obtained at the PERS' website at www.calpers.ca.gov.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the years ended December 31, 2025 and 2024, SMUD recognized OPEB expense of $12.1 million and $10.6 million, respectively. At December 31, 2025 and 2024, SMUD reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2025	December 31, 2024
	(thousands of dollars)	
Deferred outflows of resources:		
Changes of assumptions	$ 13,205	$ 13,187
Differences between expected and actual experience	39,085	17,183
Net differences between projected and actual earnings on OPEB plan investments	-0-	15,244
Employer's contributions to the OPEB Plan subsequent to the measurement of total OPEB liability	12,281	12,601
Total deferred outflows of resources	$ 64,571	$ 58,215
Deferred inflows of resources:		
Changes of assumptions	$ 2,212	$ 5,020
Differences between expected and actual experience	9,039	18,536
Net differences between projected and actual earnings on OPEB plan investments	5,134	-0-
Total deferred inflows of resources	$ 16,385	$ 23,556

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be subject to regulatory accounting as follows (see Note 8):

Year ended December 31:	
2026	$ 16,334
2027	3,326
2028	4,635
2029	4,987
2030	6,052
Thereafter	571

NOTE 16. INSURANCE PROGRAMS AND CLAIMS

SMUD is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions, cyber activities, natural disasters, employee injuries and illnesses, and other exposures. SMUD carries commercial insurance coverage to cover most claims in excess of specific dollar thresholds, ranging from $5.0 thousand to $10.0 million per claim. General liability (non-wildfire) limits are $150.0 million, excess of a $10.0 million self-insured retention. As of December 31, 2025, wildfire liability limits are $315.0 million ($280.0 million commercial insurance plus $25.0 million self-insured retention) excess of $10.0 million self-insured retention. SMUD's property insurance coverage is based on the replacement value of the asset. Effective January 1, 2025, SMUD discontinued its self-insurance programs for both short-term and long-term disability benefits. As a result, SMUD no longer retains liability for claims incurred after this date related to disability coverage, except for those claims incurred prior to January 1, 2025, which will continue to be administered and paid by SMUD under the former self-insurance arrangements. There have been no significant reductions in insurance coverage. In 2025, 2024, and 2023, the insurance policies in effect have adequately covered all settlements of the claims against SMUD. No claims have exceeded the limits of property or liability insurance in any of the past three years.

The claims liability is included as a component of Self Insurance and Other in the Statements of Net Position.

SMUD's total claims liability, comprising claims received and claims incurred but not reported, at December 31, 2025, 2024 and 2023 is presented below:

	2025	2024	2023
		(thousands of dollars)	
Workers' compensation claims	$ 9,741	$ 6,428	$ 6,926
General and auto claims	2,838	3,077	3,474
Short and long-term disability claims	152	1,204	68
Claims liability	$ 12,731	$ 10,709	$ 10,468

Changes in SMUD's total claims liability during 2025, 2024 and 2023 are presented below:

	2025	2024	2023
		(thousands of dollars)	
Claims liability, beginning of year	$ 10,709	$ 10,468	$ 10,790
Add: provision for claims, current year	2,960	2,722	2,635
Increase in provision for claims in prior years	2,912	343	1,752
Less: payments on claims attributable to current and prior years	(3,850)	(2,824)	(4,709)
Claims liability, end of year	$ 12,731	$ 10,709	$ 10,468

NOTE 17. COMMITMENTS

Electric Power and Gas Supply Purchase Agreements. SMUD has numerous power purchase agreements with other power producers to purchase capacity, transmission, and associated energy to supply a portion of its load requirements. SMUD has minimum take-or-pay commitments for energy on some contracts. SMUD has numerous long-term natural gas supply, gas transportation and gas storage agreements with Canadian and U.S. companies to supply a portion of the consumption needs of SMUD's natural gas-fired power plants.

At December 31, 2025, the approximate minimum obligations for the "take-or-pay" contracts over the next five years are as follows:

	Electric	Gas
	(thousands of dollars)	
2026	$ 63,040	$ 10,735
2027	92,722	11,342
2028	101,225	11,361
2029	101,782	11,454
2030	104,809	11,483

At December 31, 2025, the approximate minimum obligations for the remaining contracts, assuming the energy or gas is delivered over the next five years, are as follows:

	Electric	Gas
	(thousands of dollars)	
2026	$ 315,748	$ 120,362
2027	273,000	118,867
2028	303,940	116,536
2029	312,387	114,940
2030	343,991	113,082

Contractual Commitments beyond 2030 - Electricity. Several of SMUD's purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2031 and 2057 and provide for power under various terms and conditions. SMUD estimates its annual minimum commitments under the take-or-pay contracts ranges between $105.4 million in 2031 and $34.0 million in 2057. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the energy is delivered, ranges between $358.3 million in 2031 and $1.5 million in 2052. The Base Resource contract enables SMUD to receive a percentage of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a percent share of their revenue requirement; and SMUD has contracted for additional base resource power with no commitment until called upon. SMUD's largest purchase power source (in volume) is the Country Acres contract, where SMUD has contracted ownership of 344 MW's of Solar PV generation and 172 MW's battery energy storage capacity. The Country Acres contract expires on December 31, 2057.

Contractual Commitments beyond 2030 - Gas. Several of SMUD's natural gas supply, gas transportation and gas storage contracts extend beyond the five-year summary presented above. These contracts expire between 2031 and 2049 and provide transportation and storage under various terms and conditions. SMUD estimates its annual minimum commitments under the take-or-pay contracts ranges between $11.5 million in 2031 and $1.5 million in 2049. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the gas is delivered, ranges between $108.6 million in 2031 and $8.2 million in 2049.

Electric Power Price Swap Agreements. SMUD has entered into multiple variable to fixed rate swap with a notional amount totaling 2,010,700 MWh for the purpose of fixing the rate on SMUD's electric power purchases. This electric power price swap agreement results in SMUD paying fixed rates ranging from $16.75 to $81.95 per MWh. The swap agreements expire periodically from January 2026 through December 2027.

Gas Price Swap Agreements. SMUD has entered into numerous variable to fixed rate swaps with notional amounts totaling 199,472,500 Dths for the purpose of fixing the rate on SMUD's natural gas purchases for its gas-fueled power plants and gas indexed electric contracts. These gas price swap agreements result in SMUD paying fixed rates ranging from $3.451 to $5.044 per Dth. The swap agreements expire periodically from January 2026 through December 2028.

Gas Transport Capacity Agreements. SMUD has multiple long-term natural gas transport capacity agreements with U.S. companies to transport natural gas to SMUD's natural gas-fired power plants from the supply basins in the North to the

California-Oregon border and from supply basins in the southwest and Rocky Mountains to the Southern California border. These gas transport capacity agreements provide for the delivery of gas into SMUD-owned pipeline capacity within California. The gas transport capacity agreements provide SMUD with 48,206 Dth per day (Dth/d) of natural gas pipeline capacity from the North and 38,181 Dth/d from the Southwest or Rocky Mountain Basins through at least 2028.

Gas Storage Agreements. SMUD also has agreements for storage of natural gas at regional facilities of up to 3.0 million Dth through March 2029, lowering to 1.0 million Dth through March 2031.

Hydro License Agreements. SMUD has a hydro license for a term of 50 years effective July 1, 2014 (see Note 2). SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. Each contract is adjusted annually by an inflation index.

Construction Contracts. SMUD has entered into various construction contracts for the construction of the Folsom Administrative Operations Building, the El Rio substation, and meter replacements. As of December 31, 2025, the not-to-exceed price for these contracts totaled $195.7 million. The remaining contract obligations for these contracts as of December 31, 2025 was $148.7 million.

NOTE 18. CLAIMS AND CONTINGENCIES

FERC Administrative Proceedings. SMUD is involved in a number of FERC administrative proceedings related to the operation of wholesale energy markets, transmission and interconnection matters, gas transportation, and the development of NERC reliability standards. While these proceedings are complex and numerous, they generally fall into the following categories: (i) filings initiated by the California Independent System Operator Corporation (CAISO) (or other market participants) to adopt/modify the CAISO Tariff and/or establish market design and behavior rules; (ii) filings initiated by existing transmission owners (i.e., PG&E and the other Investor Owned Utilities) to pass through costs to their existing wholesale transmission customers; (iii) filings initiated by FERC orn market participants to establish market design and behavior rules or to complain about or investigate market behavior by certain market participants; (iv) filings initiated by transmission owners under their transmission owner tariffs for the purpose of establishing a regional transmission planning process and interconnection agreements; (v) filings initiated by providers of firm gas transportation services under the Natural Gas Act; and (vi) filings initiated by NERC to develop reliability standards applicable to owners, users, and operators of the bulk power system. In addition, SMUD is an active participant in other FERC administrative proceedings, including those related to reliability and cybersecurity standards, variable resource integration, hydropower operations, and transmission planning and cost allocation. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

CPUC Administrative Proceedings. SMUD monitors a number of CPUC proceedings. These proceedings generally fall into the following categories: (i) filings initiated by PG&E to adopt/modify its tariffs and/or rules; (ii) rulemakings initiated by the CPUC to establish market design and behavior rules or program rules affecting SMUD customers; and (iii) rulemakings initiated by the CPUC to establish electric and/or gas system safety design and maintenance rules. SMUD believes that determinations of these CPUC proceedings will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

State Agency Regulatory Proceedings. SMUD monitors regulatory activities and rulemakings initiated by key State agencies, including the California Air Resources Board ("CARB"), the California Energy Commission ("CEC"), and the State Water Resources Control Board ("SWRCB"). These proceedings generally fall into the following categories: (i) rulemakings establishing and implementing greenhouse gas emission limits, cap-and-trade program design, renewable energy targets, low carbon fuel mandates and market design, zero-emission vehicle mandates, and other measures implementing statewide climate goals; (ii) processes governing integrated resource planning, resource adequacy, energy efficiency and building standards, load management, and reliability programs; and (iii) proceedings related to Delta conveyance, water quality control planning, waste discharge permitting, and resource management activities that may indirectly affect power operations and statewide grid reliability. SMUD believes that determinations in these State regulatory proceedings will not have a material adverse effect on SMUD's financial position, liquidity, or results of operations.

Environmental Matters. SMUD was one of many potentially responsible parties that had been named in a number of actions relating to environmental claims and/or complaints. SMUD has resolved these environmental claims and/or complaints and entered into settlement agreements and/or consent orders. These settlement agreements and consent orders have statutory reopener provisions which allow regulatory agencies to seek additional funds for environmental remediation under certain limited circumstances. While SMUD believes it is unlikely that any of the prior settlements or consent orders will be reopened, the possibility exists. If any of the settlements or consent orders were to be reopened, SMUD management does not believe that the outcome will have a material adverse effect on SMUD's financial position, liquidity or results of operations.

Other Matters. Currently, SMUD is party to various claims, legal actions and complaints relating to its operations, including but not limited to property damage and personal injury, contract disputes, torts, and employment matters. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

NOTE 19. SUBSEQUENT EVENTS

SMUD evaluated subsequent events through March 6, 2026, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

On January 29, 2026, SMUD executed two significant changes to its credit facilities. The existing line of credit with Wells Fargo Bank was amended, reducing the available credit facility from $100 million to $50 million and a new revolving line of credit agreement with PNC Bank was entered into, providing an additional $100 million of available credit. As of March 6, 2026, the date these financials were available to be issued, SMUD has not drawn on either of these lines of credit.

Required Supplementary Information – Unaudited
For the Years Ended December 31, 2025 and 2024

Required Supplementary Information - Unaudited
For the Years Ended December 31, 2025 and 2024

Schedule of Changes in Net Pension Liability and Related Ratios
During the Measurement Period - PERS Plan

	December 31,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
	(thousands of dollars)									
Total pension liability:										
Service cost	$ 48,210	$ 46,378	$ 42,960	$ 41,885	$ 38,900	$ 38,901	$ 38,061	$ 36,029	$ 35,040	$ 29,044
Interest	197,469	189,234	176,370	167,926	168,984	164,044	157,976	151,354	150,119	147,497
Changes of assumptions	-0-	-0-	1,890	26,275	-0-	-0-	-0-	(61,585)	123,043	-0-
Differences between expected and actual experience	48,559	120,696	53,599	(31,370)	(5,875)	9,981	18,877	1,293	(29,276)	(8,357)
Benefit payments, including refunds of employee contributions	(170,248)	(161,249)	(149,331)	(137,603)	(130,376)	(125,581)	(117,548)	(111,763)	(104,428)	(99,155)
Net change in total pension liability	123,990	195,059	125,488	67,113	71,633	87,345	97,366	15,328	174,498	69,029
Total pension liability, beginning of year	2,874,327	2,679,268	2,553,780	2,486,667	2,415,034	2,327,689	2,230,323	2,214,995	2,040,497	1,971,468
Total pension liability, end of year (a)	$ 2,998,317	$ 2,874,327	$ 2,679,268	$ 2,553,780	$ 2,486,667	$ 2,415,034	$ 2,327,689	$ 2,230,323	$ 2,214,995	$ 2,040,497
Plan fiduciary net position:										
Contributions - employer	$ 66,245	$ 62,116	$ 92,504	$ 114,476	$ 229,440	$ 98,344	$ 69,119	$ 90,141	$ 32,389	$ 27,645
Contributions - employee	23,124	21,417	19,921	18,096	17,552	18,095	17,411	16,832	15,845	15,271
Net investment income	305,454	225,340	140,540	(189,479)	454,518	92,534	115,867	138,739	171,596	8,316
Benefit payments, including refunds of employee contributions	(170,248)	(161,249)	(149,331)	(137,603)	(130,376)	(125,581)	(117,548)	(111,763)	(104,428)	(99,155)
Administrative expense	(1,833)	(1,969)	(1,705)	(1,566)	(1,943)	(2,628)	(1,270)	(7,474)	(2,275)	(969)
Other miscellaneous income/(expense)	-0-	-0-	-0-	-0-	-0-	-0-	4	(4)	-0-	34
Net change in plan fiduciary net position	222,742	145,655	101,929	(196,076)	569,191	80,764	83,583	126,471	113,127	(48,858)
Plan fiduciary net position, beginning of year	2,565,913	2,420,258	2,318,329	2,514,405	1,945,214	1,864,450	1,780,867	1,654,396	1,541,269	1,590,127
Plan fiduciary net position, end of year (b)	$ 2,788,655	$ 2,565,913	$ 2,420,258	$ 2,318,329	$ 2,514,405	$ 1,945,214	$ 1,864,450	$ 1,780,867	$ 1,654,396	$ 1,541,269
Net pension liability/(asset), ending (a) - (b)	$ 209,662	$ 308,414	$ 259,010	$ 235,451	$ (27,738)	$ 469,820	$ 463,239	$ 449,456	$ 560,599	$ 499,228
Plan fiduciary net position as a percentage of the total pension liability	93.0%	89.3%	90.3%	90.8%	101.1%	80.5%	80.1%	79.8%	74.7%	75.5%
Covered payroll	$ 305,515	$ 290,769	$ 265,184	$ 256,965	$ 257,613	$ 254,756	$ 247,759	$ 235,902	$ 223,685	$ 207,119
Net pension liability/(asset) as a percentage of covered payroll	68.6%	106.1%	97.7%	91.6%	-10.8%	184.4%	187.0%	190.5%	250.6%	241.0%

Notes to Schedule:

Changes of Benefit Terms: The figures above generally include any liability impact that may have resulted from voluntary benefit changes that occurred on or before the Measurement Date. However, offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes) that occurred after the Valuation Date are not included in the figures above, unless the liability impact is deemed to be material by the plan actuary.

Changes in Assumptions: There were no assumption changes in 2023 through 2025. Effective with the June 30, 2021, valuation date (June 30, 2022, measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. In addition, demographic assumptions and the price inflation assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15% for measurement dates June 30, 2017, through June 30, 2021, and 7.65% for measurement date June 30, 2016.

Schedule of Plan Contributions for Pension - PERS Plan - Unaudited

	December 31,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
	(thousands of dollars)									
Actuarially determined contribution	$ 40,150	$ 28,316	$ 45,171	$ 44,599	$ 54,315	$ 52,276	$ 49,119	$ 40,142	$ 32,389	$ 27,645
Contributions in relation to the actuarially determined contribution	(66,245)	(62,116)	(92,504)	(114,476)	(229,440)	(98,344)	(69,119)	(90,142)	(32,389)	(27,645)
Contribution excess	$ (26,095)	$ (33,800)	$ (47,333)	$ (69,877)	$ (175,125)	$ (46,068)	$ (20,000)	$ (50,000)	$ -0-	$ -0-
Covered payroll	$ 305,515	$ 290,769	$ 265,184	$ 256,965	$ 257,613	$ 254,756	$ 247,759	$ 235,902	$ 223,685	$ 207,119
Contributions as a percentage of covered payroll	21.7%	21.4%	34.9%	44.5%	89.1%	38.6%	27.9%	38.2%	14.5%	13.4%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended December 31, 2025 was derived from the June 30, 2022 funding valuation report.

Actuarial cost method	Entry age Actuarial Cost Method
Amortization method/period	For details, see June 30, 2022 Funding Valuation Report
Asset valuation method	Fair value of assets. For details, see June 30, 2022 Funding Valuation Report
Inflation	2.30%
Salary increases	Varies by entry age and service
Payroll growth	2.80%
Investment rate of return	6.80% Net of pension plan investment and administrative expenses; includes inflation
Retirement age	The probabilities of retirement are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.
Mortality	The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In 2024, the investment rate of return was changed from 7.00% to 6.80%. In 2021, the investment rate of return was changed from 7.25% to 7.00%. In 2020, the investment rate of return was 7.25%. Prior to 2024, the probabilities of retirement and mortality are based on the 2017 CalPERS Experience Study for the period from 2000 to 2019. Prior to 2020, the probabilities of mortality are based on the 2014 PERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries. Prior to 2017, the retirement age and mortality assumptions were based on the 2010 PERS Experience Study for the period from 1997 to 2007. In addition, the mortality assumption for pre-retirement and post-retirement rates included 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Schedule of Changes in Net OPEB Asset or Liability and Related Ratios
During the Measurement Period - Unaudited

OPEB. The schedule of changes in NOA or NOL and related ratios is presented above for the years for which SMUD has available data. SMUD will add to this schedule each year and when it reaches 10 years it will contain the last 10 years data which will then be updated each year going forward.

	December 31,								
	2025	2024	2023	2022	2021	2020	2019	2018	2017
	(thousands of dollars)								
Total OPEB liability:									
Service cost	$ 8,983	$ 8,709	$ 8,303	$ 8,744	$ 8,426	$ 8,903	$ 8,946	$ 9,263	$ 8,993
Interest on total OPEB liability	25,417	23,720	22,126	22,728	25,008	26,653	26,766	29,656	28,676
Changes of assumptions	4,635	-0-	17,036	(7,127)	5,895	(11,453)	15,332	3,105	-0-
Differences between expected and actual experience	30,227	20,552	(5,263)	(12,231)	(18,938)	(23,529)	(6,885)	(59,921)	-0-
Benefit payments	(25,426)	(24,745)	(24,967)	(24,169)	(24,081)	(23,848)	(24,521)	(24,672)	(22,192)
Net change in total OPEB liability	43,836	28,236	17,235	(12,055)	(3,690)	(23,274)	19,638	(42,569)	15,477
Total OPEB liability, beginning of year	425,935	397,699	380,464	392,519	396,209	419,483	399,845	442,414	426,937
Total OPEB liability, end of year (a)	$ 469,771	$ 425,935	$ 397,699	$ 380,464	$ 392,519	$ 396,209	$ 419,483	$ 399,845	$ 442,414
Plan fiduciary net position:									
Contributions - employer	$ 11,597	$ 11,250	$ 9,096	$ 860	$ 818	$ 13,299	$ 13,963	$ 34,243	$ 114,573
Net investment income (loss)	43,474	33,053	14,632	(52,917)	76,479	20,447	20,132	27,295	24,104
Benefit payments	(25,426)	(24,745)	(24,967)	(24,169)	(24,081)	(23,848)	(24,521)	(24,672)	(22,192)
Administrative expense	(134)	(120)	(107)	(114)	(144)	(191)	(81)	(635)	(123)
Net change in plan fiduciary net position	29,511	19,438	(1,346)	(76,340)	53,072	9,707	9,493	36,231	116,362
Plan fiduciary net position, beginning of year	391,803	372,365	373,711	450,051	396,979	387,272	377,779	341,548	225,186
Plan fiduciary net position, end of year (b)	$ 421,314	$ 391,803	$ 372,365	$ 373,711	$ 450,051	$ 396,979	$ 387,272	$ 377,779	$ 341,548
Net OPEB (asset) or liability, ending (a) - (b)	$ 48,457	$ 34,132	$ 25,334	$ 6,753	$ (57,532)	$ (770)	$ 32,211	$ 22,066	$ 100,866
Plan fiduciary net position as a percentage of the total OPEB liability	89.7%	92.0%	93.6%	98.2%	114.7%	100.2%	92.3%	94.5%	77.2%
Covered payroll	$ 377,665	$ 346,382	$ 345,500	$ 301,746	$ 289,014	$ 287,001	$ 282,993	$ 269,753	$ 252,211
Net OPEB (asset) or liability as a percentage of covered payroll	12.8%	9.9%	7.3%	2.2%	-19.9%	-0.3%	11.4%	8.2%	40.0%

Notes to Schedule

Benefit Changes: There were no changes to benefits.

Changes in Assumptions: In 2025, the discount rate was updated based on cash flow projection of Strategy 1 and Strategy 3 funds. In 2024, there were no changes of assumptions. In 2023, the healthcare trends were updated. In 2022, the long-term rate of return for Strategy 3 was updated based on newer target asset allocation, the discount rate was updated based on crossover test, the demographic assumptions were updated to CalPERS 2000-2019 Experience Study, and the mortality improvement scale was updated to Scale MP-2021. In 2021, the discount rate was updated due to weighting of Strategy 1 and Strategy 3 and updated capital market assumptions, the mortality improvement scale was updated to Scale MP-2020, the inflation rate was changed to 2.5% and the implied subsidy was removed for Medicare Advantage Plans. In 2020, the discount rate reflected the split of assets between Strategy 1 and Strategy 3, the mortality improvement scale was updated to Scale MP-2019, and the Kaiser Medicare trend rates were updated.

Schedule of Plan Contributions for OPEB

OPEB Plan. The schedule of OPEB contributions is presented below for the years for which SMUD has available data. SMUD will add to this schedule each year and when it reaches 10 years it will contain the last 10 years data which will then be updated each year going forward.

	December 31, (thousands of dollars)								
	2025	2024	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 11,461	$ 10,650	$ 8,566	$ 5,425	$ 8,661	$ 12,201	$ 10,710	$ 15,366	$ 16,472
Contributions in relation to the actuarially determined contribution	(11,277)	(11,864)	(8,806)	(1,157)	(853)	(13,233)	(13,155)	(35,128)	(116,181)
Contribution deficiency (excess)	$ 184	$ (1,214)	$ (240)	$ 4,268	$ 7,808	$ (1,032)	$ (2,445)	$ (19,762)	$ (99,709)
Covered payroll	$ 381,485	$ 376,418	$ 342,236	$ 318,094	$ 285,425	$ 289,552	$ 286,835	$ 277,193	$ 260,210
Contributions as a percentage of covered payroll	3.0%	3.2%	2.6%	0.4%	0.3%	4.6%	4.6%	12.7%	44.6%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended December 31, 2025 were derived from the June 30, 2024 funding valuation report.

Actuarial cost method	Entry age normal, Level percent of pay
Amortization method	Level percent of pay
Amortization period	21-year fixed period for 2024/25
Asset valuation method	Market value of assets
Discount rate	6.25% for all actives and retirements after 6/30/2018, 5.25% for all retirements before 6/30/2018
Inflation	2.50%
Medical trend	Non-Medicare: 7.90% for 2026, decreasing to an ultimate rate of 3.45% in 2076 Medicare (Non-Kaiser): 6.90% for 2026, decreasing to an ultimate rate of 3.45% in 2076 Medicare (Kaiser): 5.65% for 2026, decreasing to an ultimate rate of 3.45% in 2076
Mortality	CalPERS 2000-2019 experience study
Mortality improvement	Mortality projected fully generational with Scale MP-21

In 2025, the amortization period was for a 21-year fixed period. Mortality assumption used PERS 2000-2019 experience study. The mortality improvement projected fully generational with Scale MP-21. In 2024, the amortization period was for a 22-year fixed period. Mortality assumption used PERS 2000-2019 experience study. The mortality improvement projected fully generational with Scale MP-21. In 2022, the amortization period was for a 24-year fixed period. Mortality assumption used PERS 1997-2015 experience study. The mortality improvement projected fully generational with Scale MP-20. In 2021, the amortization period was for a 25-year fixed period. Mortality assumption used PERS 1997-2015 experience study. The mortality improvement projected fully generational with Scale MP-19. In 2020, the amortization period was for a 26-year fixed period. Mortality assumption used PERS 1997-2015 experience study. The mortality improvement projected fully generational with Scale MP-18. In 2019, the amortization period was for a 27-year fixed period. Mortality assumption used PERS 1997-2015 experience study. The mortality improvement projected fully generational with Scale MP-17. In 2018, the amortization period was for a 28-year fixed period. Mortality assumption used PERS 1997-2011 experience study. The mortality improvement projected fully generational with Scale MP-16. In 2017, the amortization period was for a 29-year fixed period. The inflation rate was 3.0% and the discount rate was 7.25%. The mortality projected fully generational with Scale MP-14, modified to converge in 2022.