

# Exhibit to Agenda Item #4

- a. Enterprise Risk Management Update.
- b. Discuss potential revisions to the **Energy Risk Management and Energy Trading Standards**.

Board Policy Committee and Special SMUD Board of Directors Meeting  
Wednesday, June 12, 2024, scheduled to begin at 6:00 p.m.

SMUD Headquarters Building, Auditorium

# Enterprise Risk Management Background

- The purpose of today's discussion is to update the Board on our refreshed approach to Enterprise Risk Management
- Our current state includes:
  - Governance (Board Strategic Direction SD-17)
  - Oversight & accountability (Enterprise Risk Oversight Committee)
  - Enterprise Risk Management (ERM) framework
  - Integration of ERM with business processes
  - Enterprise risk analysis
  - Annual and periodic review of enterprise risk portfolio, including prioritization and benchmarking
  - Risk champion network

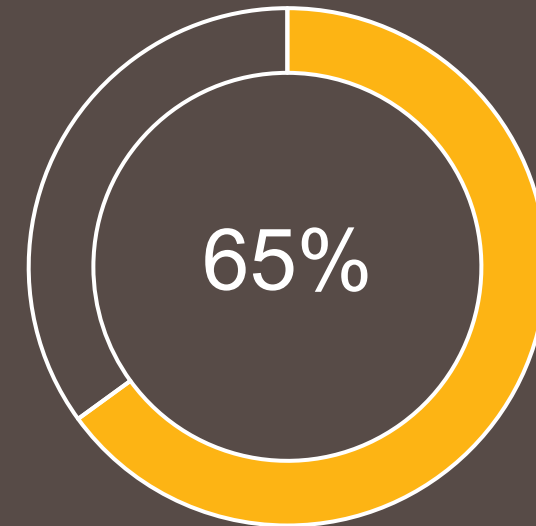
# Drivers for a refresh to our Enterprise Risk Management approach

## Examples of recent events that demonstrate a need for enhanced risk activities:

- Consumnes Power Plant (CPP) outage
- Commodity cost volatility
- Unprecedented storms

## In addition, SMUD will need to manage emerging areas of change such as:

- Load growth due to electrification
- Energy supply characteristics as we advance our 2030 Clean Energy Vision



According to the 2023 *The State of Risk Oversight Report* from North Carolina State University, 65% of respondents surveyed from over 454 organizations said that the **volume and complexity of risks have increased over the past 5 years.**

# KPMG Enterprise Risk Management Maturity Assessment

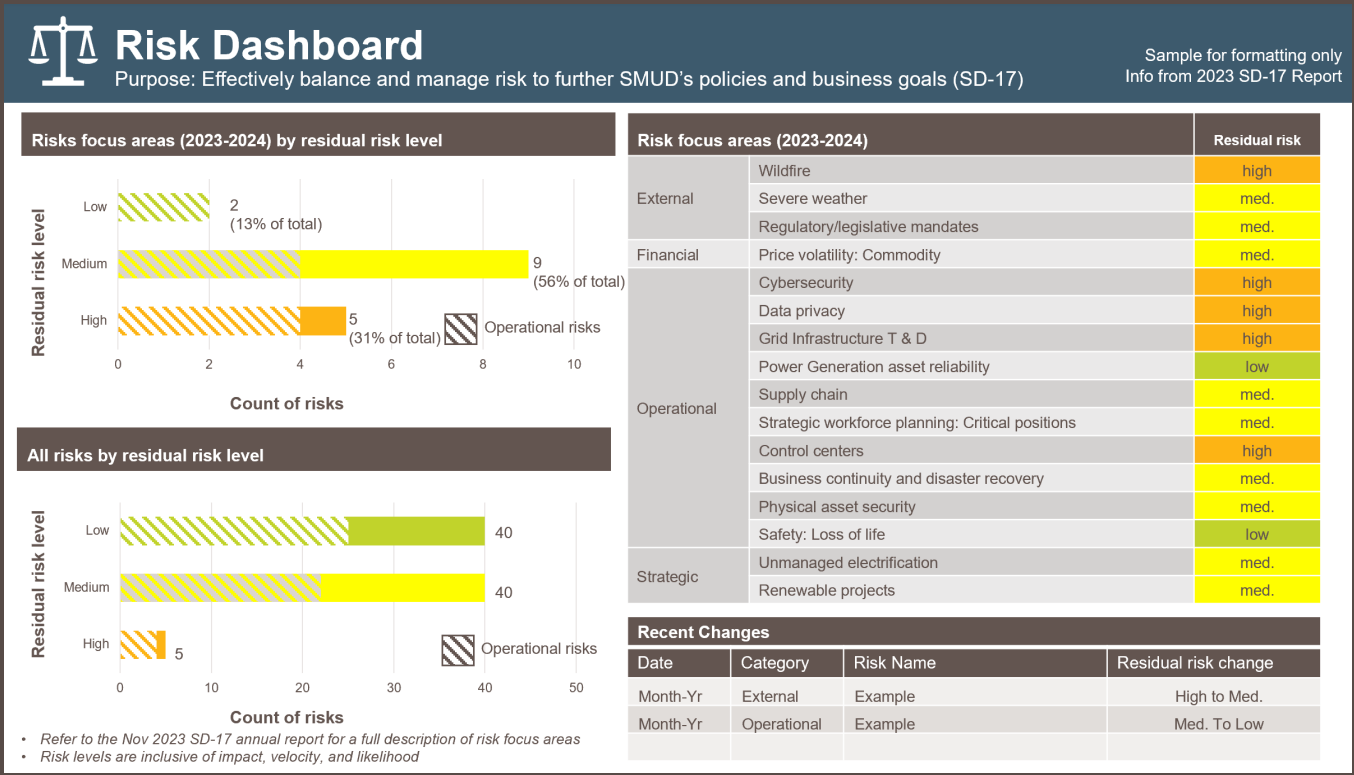
- Internal Audit Services, with the expert assistance of KPMG, completed a maturity assessment of SMUD's Enterprise Risk Management program in April 2024 to identify potential areas for improvement
- KPMG recommended four key focus areas:



# Summary of refreshed approach to Enterprise Risk Management and Board reporting

		Historical approach	Refreshed approach
Framework	Org Structure	<ul style="list-style-type: none"> <li>Risk part of Treasury</li> </ul>	<ul style="list-style-type: none"> <li>Risk part of Enterprise Strategy</li> </ul>
	Simplification	<ul style="list-style-type: none"> <li>Bottom-up risk identification</li> </ul>	<ul style="list-style-type: none"> <li>Connect top-down and bottom-up risks</li> </ul>
	Risk-aware culture	<ul style="list-style-type: none"> <li>Trainings specific to certain risk areas</li> <li>Engagement with risk owners</li> </ul>	<ul style="list-style-type: none"> <li>Historical approach plus:                             <ul style="list-style-type: none"> <li>Strategy Forum &amp; Risk Champions Network as “eyes and ears”</li> <li>More regular risk training and workshops</li> </ul> </li> </ul>
	Data	<ul style="list-style-type: none"> <li>Data used to assess certain risks</li> </ul>	<ul style="list-style-type: none"> <li>More consistent use of data to measure risk exposure</li> </ul>
Reporting	Risk reporting	<ul style="list-style-type: none"> <li>SD-17 annual report &amp; presentation</li> </ul>	<ul style="list-style-type: none"> <li>SD-17 annual report &amp; presentation</li> <li>Quarterly risk report &amp; presentation</li> </ul>
	Commodity reporting	<ul style="list-style-type: none"> <li>Monthly commodity risk exposure summary</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly commodity risk exposure analysis integrated with quarterly risk report</li> </ul>

# 2024 Quarterly Enterprise Risk Management Report



- Risk focus areas emphasized
- Changes highlighted
- Monthly commodity risk exposure snapshot replaced with a quarterly exposure analysis (not shown)
- As our Enterprise Risk Management program matures, so will this report

# Recommendation

Approve proposed revisions to the Energy Risk Management and Energy Trading Standards