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Financial Statements

# Report of Independent Auditors

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December 31, 2025 and 2024



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

|  |    |
|--|----|
| Report of Independent Auditors                               | 1  |
| Required Supplementary Information - Unaudited               |    |
| Management's Discussion and Analysis                         | 4  |
| Basic Financial Statements                                   |    |
| Statements of Net Position                                   | 15 |
| Statements of Revenues, Expenses and Changes in Net Position | 17 |
| Statements of Cash Flows                                     | 18 |
| Notes to Financial Statements                                |    |
| Note 1. Organization   | 20 |
| Note 2. Summary of Significant Accounting Policies           | 20 |
| Note 3. Accounting Change                                    | 28 |
| Note 4. Electric Utility Plant                               | 29 |
| Note 5. Investment in Joint Powers Authority                 | 32 |
| Note 6. Component Units                                      | 33 |
| Note 7. Cash, Cash Equivalents, and Investments              | 38 |
| Note 8. Regulatory Deferrals                                 | 41 |
| Note 9. Derivative Financial Instruments                     | 43 |
| Note 10. Long-term Debt                                      | 48 |
| Note 11. Commercial Paper Notes                              | 53 |
| Note 12. Fair Value Measurement                              | 54 |
| Note 13. Accrued Decommissioning Liability                   | 56 |
| Note 14. Pension Plans                                       | 57 |
| Note 15. Other Postemployment Benefits                       | 62 |
| Note 16. Insurance Programs and Claims                       | 66 |
| Note 17. Commitments   | 66 |
| Note 18. Claims and Contingencies                            | 68 |
| Note 19. Subsequent Events                                   | 69 |

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

Required Supplementary Information - Unaudited

|  |    |
|--|----|
| Schedule of Changes in Net Pension Liability and Related Ratios<br>During the Measurement Period – PERS Plan | 71 |
| Schedule of Plan Contributions for Pension – PERS Plan   | 72 |
| Schedule of Changes in Net OPEB Asset or Liability and Related Ratios<br>During the Measurement Period       | 73 |
| Schedule of Plan Contributions for OPEB  | 74 |

## 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 addition 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](http://www.smud.org) or contact us at [customerservices@smud.org](mailto:customerservices@smud.org).

## **FINANCIAL POSITION**

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

### CONDENSED STATEMENTS OF NET POSITION

|   | <u>2025</u>     | <u>2024</u>     | <u>2023</u>     |
|---|-----------------|-----------------|-----------------|
| 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   | <u>1,878</u>    | <u>1,840</u>    | <u>1,625</u>    |
| Total Assets  | 8,641           | 8,121           | 7,321           |
| Deferred Outflows of Resources  | <u>306</u>      | <u>323</u>      | <u>338</u>      |
| Total Assets and Deferred Outflows of Resources                       | <u>\$ 8,947</u> | <u>\$ 8,444</u> | <u>\$ 7,659</u> |
| Liabilities   |                 |                 |                 |
| Long-Term Debt - net  | \$ 3,243        | \$ 3,251        | \$ 2,921        |
| Current Liabilities   | 673             | 606             | 701             |
| Noncurrent Liabilities  | <u>562</u>      | <u>638</u>      | <u>530</u>      |
| Total Liabilities   | 4,478           | 4,495           | 4,152           |
| Deferred Inflows of Resources   | 1,295           | 1,137           | 920             |
| Net Position  | <u>3,174</u>    | <u>2,812</u>    | <u>2,587</u>    |
| Total Liabilities, Deferred Inflows of Resources,<br>and Net Position | <u>\$ 8,947</u> | <u>\$ 8,444</u> | <u>\$ 7,659</u> |

## **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

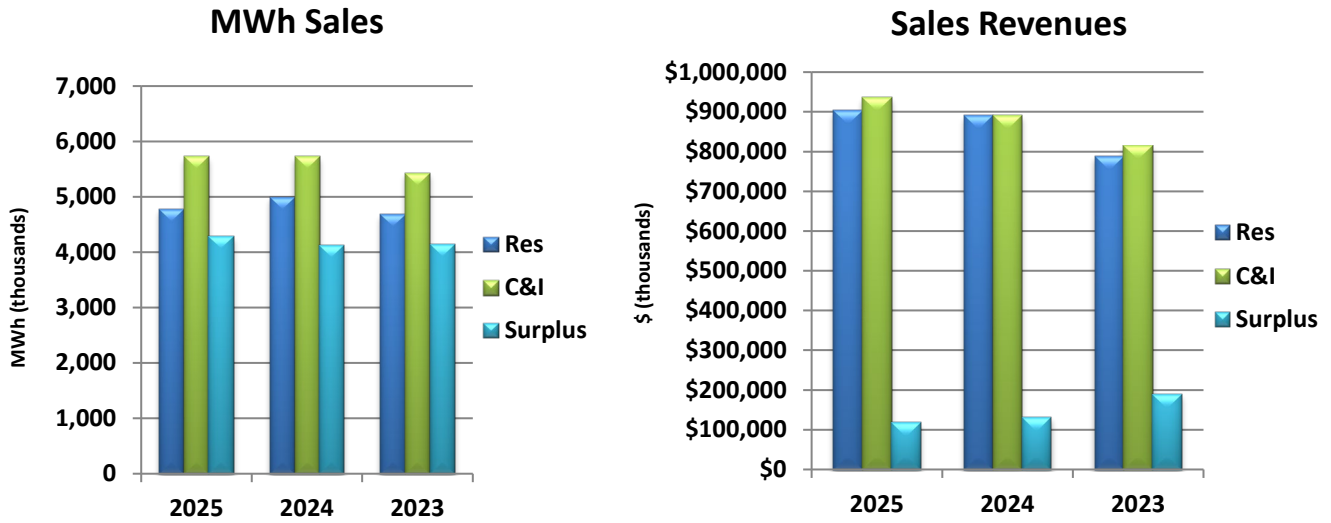
|                                  | <u>2025</u>     | <u>2024</u>     | <u>2023</u>     |
|----------------------------------|-----------------|-----------------|-----------------|
| Operating revenues               | \$ 2,121        | \$ 1,962        | \$ 1,931        |
| Operating expenses       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

## 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:



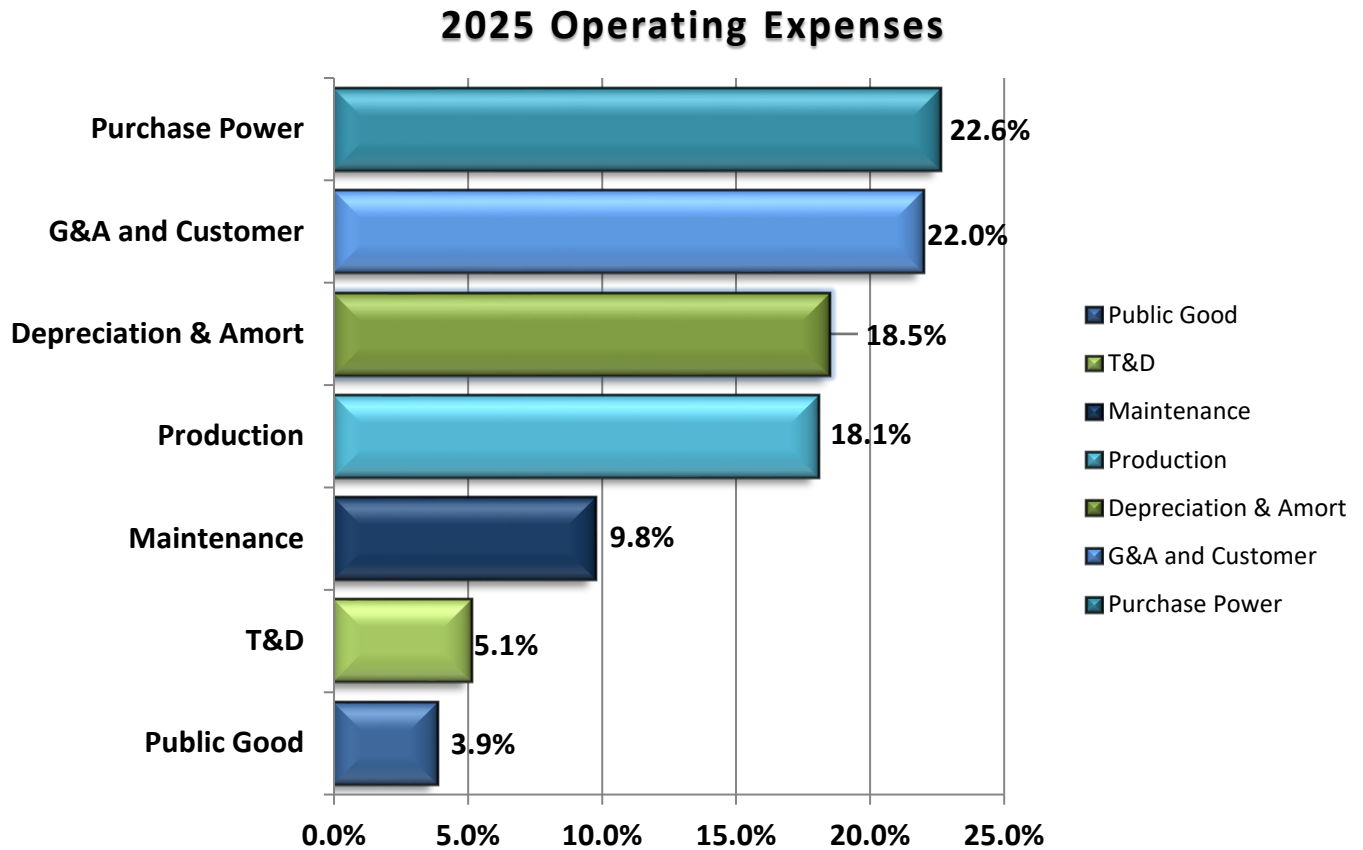
Wholesale revenues are comprised of both surplus gas and energy sales which are part of the operational strategy in managing fuel and energy costs. In 2025, energy sales were lower by \$13 million as compared to 2024 due to lower energy prices in the market. Surplus gas sales were lower than 2024 by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

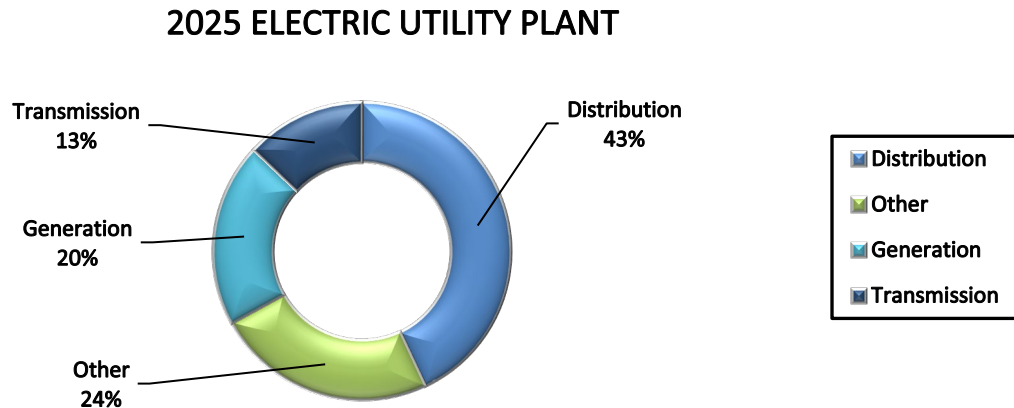
Total other revenues (net) were \$169 million for 2024, an increase of \$33 million or 24.1% over 2023. The increase is due to \$7 million higher interest earnings on investments and \$6 million increase in investment revenue related to gas swaps. The other income - net includes one-time income receipts 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).

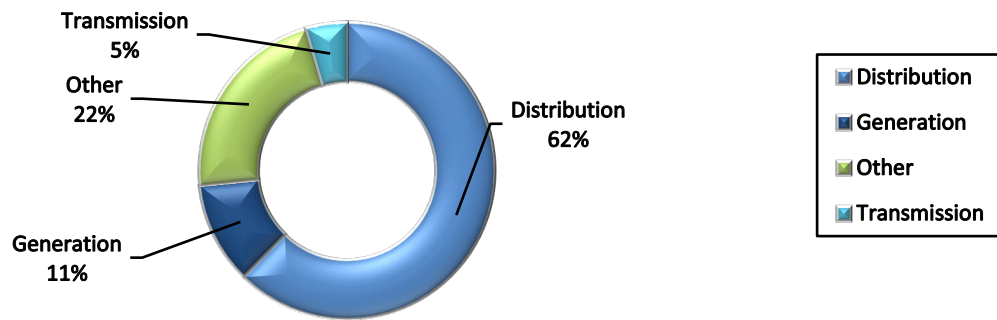
|   | 2025            | 2024            | 2023            |
|---|-----------------|-----------------|-----------------|
| Electric Utility Plant                    | \$ 8,894        | \$ 8,358        | \$ 7,853        |
| Accumulated Depreciation and Amortization | (4,085)         | (3,821)         |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

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:

### 2025 ELECTRIC UTILITY PLANT ADDITIONS



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<br>2026 | Actual<br>2025 | Actual<br>2024 |
|-----------------------------|----------------|----------------|----------------|
| Capital Program:            |                |                |                |
| Transmission & Distribution | \$ 290         | \$ 301         | \$ 215         |
| Generation                  | 124            | 144            | 151            |
| Other                       | <u>256</u>     | <u>149</u>     | <u>118</u>     |
| Total                       | <u>\$ 670</u>  | <u>\$ 594</u>  | <u>\$ 484</u>  |

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                   | 2024                |
|  | (thousands of dollars) |                     |
| <b>ASSETS</b>  |                        |                     |
| <b>ELECTRIC UTILITY PLANT</b>  |                        |                     |
| 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           |
| <b>RESTRICTED AND DESIGNATED ASSETS</b>                              |                        |                     |
| 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             |
| <b>CURRENT ASSETS</b>  |                        |                     |
| 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           |
| <b>NONCURRENT ASSETS</b>   |                        |                     |
| 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           |
| <b>TOTAL ASSETS</b>  | <b>8,641,167</b>       | <b>8,120,832</b>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                |                        |                     |
| 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              |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                          | <b>306,027</b>         | <b>323,574</b>      |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>               | <b>\$ 8,947,194</b>    | <b>\$ 8,444,406</b> |

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

**SACRAMENTO MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF NET POSITION**

|   | December 31,           |                     |
|---|------------------------|---------------------|
|   | 2025                   | 2024                |
|   | (thousands of dollars) |                     |
| <b>LIABILITIES</b>  |                        |                     |
| <b>LONG-TERM DEBT - net</b>   | \$ 3,242,451           | \$ 3,251,259        |
| <b>CURRENT LIABILITIES</b>  |                        |                     |
| 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             |
| <b>NONCURRENT LIABILITIES</b>   |                        |                     |
| 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             |
| <b>TOTAL LIABILITIES</b>  | <b>4,477,630</b>       | <b>4,495,209</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                      |                        |                     |
| 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               |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                | <b>1,295,023</b>       | <b>1,137,077</b>    |
| <b>NET POSITION</b>   |                        |                     |
| 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             |
| <b>TOTAL NET POSITION</b>   | <b>3,174,541</b>       | <b>2,812,120</b>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <b>\$ 8,947,194</b>    | <b>\$ 8,444,406</b> |

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                    | 2024         |
|   | (thousands of dollars)  |              |
| <b>OPERATING REVENUES</b>                   |                         |              |
| 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    |
| <b>OPERATING EXPENSES</b>                   |                         |              |
| 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    |
| <b>OPERATING INCOME</b>                     | 321,845                 | 158,143      |
| <b>NON-OPERATING REVENUES AND EXPENSES</b>  |                         |              |
| 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       |
| <b>CHANGE IN NET POSITION</b>               | 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)  |                   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                         |                   |
| 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)         |
| <b>Net cash provided by operating activities</b>   | <b>637,293</b>          | <b>619,032</b>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                         |                   |
| 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)           |
| <b>Net cash provided by (used in) noncapital financing activities</b>  | <b>(53,298)</b>         | <b>30,323</b>     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                         |                   |
| 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)          |
| <b>Net cash used in capital and related financing activities</b>   | <b>(483,199)</b>        | <b>(546,533)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                         |                   |
| 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)           |
| <b>Net cash provided by (used in) investing activities</b>   | <b>(16,248)</b>         | <b>22,785</b>     |
| 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           |
| <b>Cash and cash equivalents at the end of the year</b>  | <b>\$ 501,379</b>       | <b>\$ 416,831</b> |
| 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            |
| <b>Cash and cash equivalents at the end of the year</b>  | <b>\$ 501,379</b>       | <b>\$ 416,831</b> |

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<br>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<br>January 1,<br><u>2025</u> | <u>Additions</u>  | Transfers<br>and<br><u>Disposals</u> | Balance<br>December 31,<br><u>2025</u> |
|--|--------------------------------------|-------------------|--------------------------------------|--|
|  | (thousands of dollars)               |                   |                                      |  |
| Nondepreciable Electric Utility Plant:             |                                      |                   |                                      |  |
| Land and land rights                               | \$ 197,108                           | \$ 5,350          | \$ 9,792                             | \$ 212,250                             |
| CWIP   | <u>527,739</u>                       | <u>561,686</u>    | <u>(314,087)</u>                     | <u>775,338</u>                         |
| Total nondepreciable electric utility plant        | <u>724,847</u>                       | <u>567,036</u>    | <u>(304,295)</u>                     | <u>987,588</u>                         |
|  |                                      |                   |                                      |  |
| 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  | <u>1,125,176</u>                     | <u>47,631</u>     | <u>(113,867)</u>                     | <u>1,058,940</u>                       |
| 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  | <u>5,663</u>                         | <u>-0-</u>        | <u>-0-</u>                           | <u>5,663</u>                           |
| Total lease assets                                 | 85,816                               | -0-               | -0-                                  | 85,816                                 |
|  |                                      |                   |                                      |  |
| Subscription Assets                                | 48,254                               | 10,795            | (2,400)                              | 56,649                                 |
|  |                                      |                   |                                      |  |
| Less: accumulated depreciation<br>and amortization | (3,812,196)                          | (285,861)         | 22,183                               | (4,075,874)                            |
| Less: accumulated amortization<br>on JPAs          | <u>(8,532)</u>                       | <u>-0-</u>        | <u>(314)</u>                         | <u>(8,846)</u>                         |
| Total accumulated depreciation and<br>amortization | (3,820,728)                          | (285,861)         | 21,869                               | (4,084,720)                            |
|  |                                      |                   |                                      |  |
| Total depreciable plant                            | <u>3,811,689</u>                     | <u>41,439</u>     | <u>(31,250)</u>                      | <u>3,821,878</u>                       |
|  |                                      |                   |                                      |  |
| Total Electric Utility Plant - net                 | <u>\$ 4,536,536</u>                  | <u>\$ 608,475</u> | <u>\$ (335,545)</u>                  | <u>\$ 4,809,466</u>                    |

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

|  | Balance<br>January 1,<br>2024 | Additions         | Transfers<br>and<br>Disposals | Balance<br>December 31,<br>2024 |
|--|-------------------------------|-------------------|-------------------------------|---------------------------------|
|  | (thousands of dollars)        |                   |                               |                                 |
| <b>Nondepreciable Electric Utility Plant:</b>      |                               |                   |                               |                                 |
| Land and land rights                               | \$ 190,812                    | \$ 7,898          | \$ (1,602)                    | \$ 197,108                      |
| CWIP   | <u>590,659</u>                | <u>510,809</u>    | <u>(573,729)</u>              | <u>527,739</u>                  |
| Total nondepreciable electric utility plant        | <u>781,471</u>                | <u>518,707</u>    | <u>(575,331)</u>              | <u>724,847</u>                  |
| <br>   |                               |                   |                               |                                 |
| <b>Depreciable Electric Utility Plant:</b>         |                               |                   |                               |                                 |
| 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  | <u>1,139,118</u>              | <u>55,245</u>     | <u>(69,187)</u>               | <u>1,125,176</u>                |
| Total depreciable electric utility plant           | 7,027,137                     | 554,946           | (83,736)                      | 7,498,347                       |
| <br>   |                               |                   |                               |                                 |
| <b>Lease Assets:</b>                               |                               |                   |                               |                                 |
| Land   | 1,764                         | -0-               | -0-                           | 1,764                           |
| Generation   | -0-                           | 78,389            | -0-                           | 78,389                          |
| General  | <u>5,556</u>                  | <u>107</u>        | <u>-0-</u>                    | <u>5,663</u>                    |
| Total lease assets                                 | 7,320                         | 78,496            | -0-                           | 85,816                          |
| <br>   |                               |                   |                               |                                 |
| Subscription Assets                                | 36,948                        | 15,008            | (3,702)                       | 48,254                          |
| <br>   |                               |                   |                               |                                 |
| Less: accumulated depreciation<br>and amortization | (3,637,296)                   | (261,993)         | 87,093                        | (3,812,196)                     |
| Less: accumulated amortization<br>on JPAs          | <u>(8,219)</u>                | <u>-0-</u>        | <u>(313)</u>                  | <u>(8,532)</u>                  |
| Total accumulated depreciation and<br>amortization | (3,645,515)                   | (261,993)         | 86,780                        | (3,820,728)                     |
| <br>   |                               |                   |                               |                                 |
| Total depreciable plant                            | <u>3,425,890</u>              | <u>386,457</u>    | <u>(658)</u>                  | <u>3,811,689</u>                |
| Total Electric Utility Plant - net                 | <u>\$ 4,207,361</u>           | <u>\$ 905,164</u> | <u>\$ (575,989)</u>           | <u>\$ 4,536,536</u>             |

**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):

|                      | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|----------------------|------------------|-----------------|------------------|
| 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) | <u>398</u>       | <u>18</u>       | <u>416</u>       |
| Total                | <u>\$ 32,304</u> | <u>\$ 2,011</u> | <u>\$ 34,315</u> |

**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):

|                      | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|----------------------|------------------|-----------------|------------------|
| 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) | <u>461</u>       | <u>15</u>       | <u>476</u>       |
| Total                | <u>\$ 17,859</u> | <u>\$ 688</u>   | <u>\$ 18,547</u> |

#### **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:

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

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](http://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:

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

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               |
|--|---------------------|------------------|-------------------|-------------------|---------------------|
| <b>Assets</b>  |                     |                  |                   |                   |                     |
| 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                    | <u>\$ 8,163,831</u> | <u>\$ 72,645</u> | <u>\$ 719,274</u> | <u>\$ (8,556)</u> | <u>\$ 8,947,194</u> |
| <b>Liabilities</b>   |                     |                  |                   |                   |                     |
| 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           |
| <b>Net Position</b>  |                     |                  |                   |                   |                     |
| 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 | <u>\$ 8,163,831</u> | <u>\$ 72,645</u> | <u>\$ 719,274</u> | <u>\$ (8,556)</u> | <u>\$ 8,947,194</u> |

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

December 31, 2025

(thousands of dollars)

|  | <u>SMUD</u>         | <u>NCGA</u>     | <u>NCEA</u>        | <u>Eliminating</u> | <u>Total</u>        |
|--|---------------------|-----------------|--------------------|--------------------|---------------------|
| 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                                     | <u>\$ 3,185,252</u> | <u>\$ 4,633</u> | <u>\$ (12,551)</u> | <u>\$ (2,793)</u>  | <u>\$ 3,174,541</u> |

CONDENSED STATEMENTS OF CASH FLOWS

December 31, 2025

(thousands of dollars)

|   | <u>SMUD</u>       | <u>NCGA</u>      | <u>NCEA</u>  | <u>Eliminating</u> | <u>Total</u>      |
|---|-------------------|------------------|--------------|--------------------|-------------------|
| 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                    | <u>\$ 484,128</u> | <u>\$ 17,241</u> | <u>\$ 10</u> | <u>\$ -0-</u>      | <u>\$ 501,379</u> |

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               |
|--|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| <b>Assets</b>  |                     |                   |                   |                   |                     |                     |
| 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                    | <u>\$ 7,601,681</u> | <u>\$ 412,068</u> | <u>\$ 103,257</u> | <u>\$ 731,590</u> | <u>\$ (404,190)</u> | <u>\$ 8,444,406</u> |
| <b>Liabilities</b>   |                     |                   |                   |                   |                     |                     |
| 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           |
| <b>Net Position</b>  |                     |                   |                   |                   |                     |                     |
| 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 | <u>\$ 7,601,681</u> | <u>\$ 412,068</u> | <u>\$ 103,257</u> | <u>\$ 731,590</u> | <u>\$ (404,190)</u> | <u>\$ 8,444,406</u> |

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             |
| <b>Non-Operating Revenues and (Expenses)</b>                          |                     |                   |                 |                    |                     |                     |
| 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              |
| <b>Changes in Net Position Before Distributions and Contributions</b> |                     |                   |                 |                    |                     |                     |
| 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)           | (684)           | (13,697)           | (572)               | 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  | <u>\$ 2,840,491</u> | <u>\$ 261,626</u> | <u>\$ 6,646</u> | <u>\$ (13,147)</u> | <u>\$ (283,496)</u> | <u>\$ 2,812,120</u> |

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                  | <u>\$ 340,722</u> | <u>\$ 58,961</u> | <u>\$ 15,972</u> | <u>\$ 1,176</u> | <u>\$ -0-</u> | <u>\$ 416,831</u> |

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](http://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:

|   | <u>December 31,</u> |             |
|---|---------------------|-------------|
|   | <u>2025</u>         | <u>2024</u> |
| 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:

| <u>Description</u>                            | <u>Credit Rating</u> | <u>Remaining Maturities (in years)</u> |                   |                    | <u>Total Carrying Value</u> |
|---|----------------------|--|-------------------|--------------------|-----------------------------|
|   |                      | <u>Less Than 1</u>                     | <u>1-5</u>        | <u>More Than 5</u> |                             |
| (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                  | <u>99,419</u>                          | <u>-0-</u>        | <u>-0-</u>         | <u>99,419</u>               |
| 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+               | <u>-0-</u>                             | <u>-0-</u>        | <u>26,684</u>      | <u>26,684</u>               |
| Total investments                             |                      | <u>466,093</u>                         | <u>245,265</u>    | <u>26,684</u>      | <u>738,042</u>              |
| Total cash, cash equivalents, and investments |                      | <u>\$ 967,472</u>                      | <u>\$ 245,265</u> | <u>\$ 26,684</u>   | <u>\$ 1,239,421</u>         |

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

| <u>Description</u>                            | <u>Credit Rating</u> | Remaining Maturities (in years) |                   |                    | <u>Total Carrying Value</u> |
|---|----------------------|---------------------------------|-------------------|--------------------|-----------------------------|
|   |                      | <u>Less Than 1</u>              | <u>1-5</u>        | <u>More Than 5</u> |                             |
| (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                  | <u>13,732</u>                   | <u>-0-</u>        | <u>-0-</u>         | <u>13,732</u>               |
| 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+              | <u>-0-</u>                      | <u>-0-</u>        | <u>28,517</u>      | <u>28,517</u>               |
| Total investments                             |                      | <u>479,334</u>                  | <u>168,427</u>    | <u>28,517</u>      | <u>676,278</u>              |
| Total cash, cash equivalents, and investments |                      | <u>\$ 896,165</u>               | <u>\$ 168,427</u> | <u>\$ 28,517</u>   | <u>\$ 1,093,109</u>         |

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

|  | <u>December 31,</u> |                     |
|--|---------------------|---------------------|
|  | <u>2025</u>         | <u>2024</u>         |
| (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 | <u>40,925</u>       | <u>52,415</u>       |
| 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                                 | <u>701,169</u>      | <u>547,131</u>      |
| Total cash, cash equivalents, and investments      | <u>\$ 1,239,421</u> | <u>\$ 1,093,109</u> |

## 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                               | <u>79,021</u>          | <u>59,219</u>     |
| Total regulatory costs                                 | 1,095,095              | 1,001,913         |
| Less: regulatory costs to be recovered within one year | <u>(97,466)</u>        | <u>(78,921)</u>   |
| Total regulatory costs for future recovery - net       | <u>\$ 997,629</u>      | <u>\$ 922,992</u> |

## **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      | <u>40,681</u>          | <u>35,490</u>     |
| Total regulatory credits   | <u>\$ 1,119,507</u>    | <u>\$ 994,763</u> |

## 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 at     |            | Notional    |
|--|-----------------|------------|-------------------|------------|-------------|
|  | Fair Value      |            | December 31, 2025 |            |             |
|  | Current         | Noncurrent | Current           | Noncurrent |             |
|  | Amount          | Amount     | Amount            | Amount     |             |
| <b>Cash Flow Hedges:</b>                         |                 |            |                   |            |             |
| (thousands of dollars)                           |                 |            |                   |            |             |
| (thousands of Dekatherms (Dth))                  |                 |            |                   |            |             |
| <b>Asset: Other Derivative Instruments</b>       |                 |            |                   |            |             |
| 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-     |             |
| <b>Asset: Hedging Derivative Instruments</b>     |                 |            |                   |            |             |
| 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  |             |
| <b>Liability: Other Derivative Instruments</b>   |                 |            |                   |            |             |
| 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     |             |
| <b>Liability: Hedging Derivative Instruments</b> |                 |            |                   |            |             |
| 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 at     |            | Notional   |
|--|-----------------|------------|-------------------|------------|------------|
|  | Fair Value      |            | December 31, 2024 |            |            |
|  | Current         | Noncurrent | Current           | Noncurrent |            |
|  | Amount          | Amount     | Amount            | Amount     |            |
| <u>Cash Flow Hedges:</u>                         |                 |            |                   |            |            |
| (thousands of dollars)                           |                 |            |                   |            |            |
| (thousands of Dekatherms (Dth))                  |                 |            |                   |            |            |
| <u>Asset: Other Derivative Instruments</u>       |                 |            |                   |            |            |
| 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        |
| <u>Asset: Hedging Derivative Instruments</u>     |                 |            |                   |            |            |
| 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  |            |
| <u>Liability: Other Derivative Instruments</u>   |                 |            |                   |            |            |
| 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     |            |
| <u>Liability: Hedging Derivative Instruments</u> |                 |            |                   |            |            |
| 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.

|                      | <u>Notional<br/>Amount Dth</u> | <u>Beginning<br/>Date</u> | <u>Ending<br/>Date</u> | <u>Minimum<br/>Price/Dth</u> | <u>Maximum<br/>Price/Dth</u> |
|----------------------|--------------------------------|---------------------------|------------------------|------------------------------|------------------------------|
| 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.

|                      | <u>Notional<br/>Amount Dth</u> | <u>Beginning<br/>Date</u> | <u>Ending<br/>Date</u> | <u>Minimum<br/>Price/Dth</u> | <u>Maximum<br/>Price/Dth</u> |
|----------------------|--------------------------------|---------------------------|------------------------|------------------------------|------------------------------|
| 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 |
| <u>Counterparty Gas Contracts:</u> |              |      |
| 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    |
| <u>Interest Rate Contracts:</u>    |              |      |
| 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                        | -                      | 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  | <u>\$ 3,242,451</u>    | <u>\$ 3,251,259</u> |

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

|  | January 1,<br>2025  | Additions         | Defeasance<br>Payments or<br>Amortization | December 31,<br>2025 | Amounts<br>Due Within<br>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 | <u>784,240</u>      | <u>-0-</u>        | <u>(33,750)</u>                           | <u>750,490</u>       | <u>36,260</u>                     |
| Total                                  | 3,090,020           | 300,000           | (298,570)                                 | 3,091,450            | <u>\$ 130,825</u>                 |
| Unamortized premiums - net             | <u>299,304</u>      | <u>31,574</u>     | <u>(49,052)</u>                           | <u>281,826</u>       |                                   |
| Total long-term debt                   | <u>\$ 3,389,324</u> | <u>\$ 331,574</u> | <u>\$ (347,622)</u>                       | <u>\$ 3,373,276</u>  |                                   |

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

|  | January 1,<br>2024  | Additions           | Defeasance<br>Payments or<br>Amortization | December 31,<br>2024 | Amounts<br>Due Within<br>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 | <u>657,365</u>      | <u>689,700</u>      | <u>(562,825)</u>                          | <u>784,240</u>       | <u>33,750</u>                     |
| Total                                  | 2,861,240           | 1,339,310           | (1,110,530)                               | 3,090,020            | <u>\$ 138,065</u>                 |
| Unamortized premiums - net             | <u>197,381</u>      | <u>147,666</u>      | <u>(45,743)</u>                           | <u>299,304</u>       |                                   |
| Total long-term debt                   | <u>\$ 3,058,621</u> | <u>\$ 1,486,976</u> | <u>\$ (1,156,273)</u>                     | <u>\$ 3,389,324</u>  |                                   |

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) | <u>323,080</u>      | <u>42,791</u>       | <u>365,871</u>      |
| Total requirements     | <u>\$ 3,091,450</u> | <u>\$ 2,072,530</u> | <u>\$ 5,163,980</u> |

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:

| <u>Date</u>                                       | <u>Issue</u>        | <u>Final Maturity</u> | <u>Interest Rate</u> | <u>Original Amount</u> | <u>Outstanding Amount</u> |
|---|---------------------|-----------------------|----------------------|------------------------|---------------------------|
| (thousands of dollars)                            |                     |                       |                      |                        |                           |
| <b><u>Electric Revenue Bonds</u></b>              |                     |                       |                      |                        |                           |
| 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                   |
| <b><u>Subordinated Electric Revenue Bonds</u></b> |                     |                       |                      |                        |                           |
| 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                   |
| <b><u>JPA Revenue Bonds</u></b>                   |                     |                       |                      |                        |                           |
| 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<br>(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<br>(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<br>Amount<br>(thousands) | NCGA<br>Pays | Fixed<br>Rate | Floating<br>Rate       | Termination<br>Date | Credit Support<br>Provider<br>Credit<br>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<br>Amount<br>(thousands) | NCGA<br>Pays | Fixed<br>Rate | Floating<br>Rate       | Termination<br>Date | Credit Support<br>Provider<br>Credit<br>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             |            | Balance at   |        |
|-------------------|------------------------|------------|--------------|--------|
|                   | Beginning of           | Additions  |              | End of |
|                   | Year                   | Reductions | 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 | <u>\$ 725,083</u>                     | <u>\$ 85,694</u> | <u>\$ 810,777</u> |
| Other Derivative Instrument Assets:                    |                                       |                  |                   |
| Gas related agreements                                 | \$ 49                                 | \$ -0-           | \$ 49             |
| Total Other Derivative Instrument Assets               | <u>\$ 49</u>                          | <u>\$ -0-</u>    | <u>\$ 49</u>      |
| 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             | <u>\$ 18,257</u>                      | <u>\$ 28,399</u> | <u>\$ 46,656</u>  |
| Other Derivative Instrument Liabilities:               |                                       |                  |                   |
| Gas related agreements                                 | \$ 1,481                              | \$ -0-           | \$ 1,481          |
| Interest rate swap agreements                          | -0-                                   | -0-              | -0-               |
| Total Other Derivative Instrument Liabilities          | <u>\$ 1,481</u>                       | <u>\$ -0-</u>    | <u>\$ 1,481</u>   |
| 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        | <u>\$ 64,807</u>                      | <u>\$ -0-</u>    | <u>\$ 64,807</u>  |

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 | <u>\$ 469,146</u>                     | <u>\$ 178,615</u> | <u>\$ 647,761</u> |
| Other Derivative Instrument Assets:                    |                                       |                   |                   |
| Gas related agreements                                 | \$ 80                                 | \$ -0-            | \$ 80             |
| Total Other Derivative Instrument Assets               | <u>\$ 80</u>                          | <u>\$ -0-</u>     | <u>\$ 80</u>      |
| 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             | <u>\$ 22,278</u>                      | <u>\$ 31,867</u>  | <u>\$ 54,145</u>  |
| Other Derivative Instrument Liabilities:               |                                       |                   |                   |
| Gas related agreements                                 | \$ 701                                | \$ -0-            | \$ 701            |
| Interest rate swap agreements                          | -0-                                   | -0-               | -0-               |
| Total Other Derivative Instrument Liabilities          | <u>\$ 701</u>                         | <u>\$ -0-</u>     | <u>\$ 701</u>     |

|   |                  |               |                  |
|---|------------------|---------------|------------------|
| 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 | <u>\$ 40,229</u> | <u>\$ -0-</u> | <u>\$ 40,229</u> |

**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:

| <b>PERS Plan</b> | 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:

| <b>PERS Plan</b>   | 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   | <u>2,323</u> | <u>2,282</u> |
| Total employees covered by benefit terms                                 | <u>6,663</u> | <u>6,547</u> |

**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 <i>CalPERS Experience Study and Review of Actuarial Assumptions</i> . 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:

| <u>Asset Class</u> | <u>Current Target<br/>Assumed Asset Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|--------------------|--|---|
| 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:

| <u>Asset Class</u>               | <u>Current Target<br/>Assumed Asset Allocation</u> | <u>Real Return</u> |
|----------------------------------|--|--------------------|
| 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:

|  | <u>Total Pension<br/>Liability (a)</u> | <u>Increase (Decrease)<br/>Plan Fiduciary Net<br/>Position (b)</u> | <u>Net Pension<br/>(Asset) Liability<br/>(a) – (b)</u> |
|--|--|--|--|
|  |  | (thousands of dollars)   |  |
| Balances at January 1, 2025                        | <u>\$ 2,874,327</u>                    | <u>\$ 2,565,913</u>  | <u>\$ 308,414</u>                                      |
| Changes recognized for the<br>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        | <u>-0-</u>          | <u>(1,833)</u>      | <u>1,833</u>      |
| Net changes                   | <u>123,990</u>      | <u>222,742</u>      | <u>(98,752)</u>   |
| Balances at December 31, 2025 | <u>\$ 2,998,317</u> | <u>\$ 2,788,655</u> | <u>\$ 209,662</u> |

**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<br>Liability (a) | Increase (Decrease)<br>Plan Fiduciary Net<br>Position (b) | Net Pension<br>(Asset) Liability<br>(a) – (b) |
|--|--------------------------------|---|---|
|  |                                | (thousands of dollars)                                    |   |
| Balances at January 1, 2024                        | <u>\$ 2,679,268</u>            | <u>\$ 2,420,258</u>                                       | <u>\$ 259,010</u>                             |
| Changes recognized for the<br>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                             | <u>-0-</u>                     | <u>(1,969)</u>  | <u>1,969</u>                                  |
| Net changes  | <u>195,059</u>                 | <u>145,655</u>  | <u>49,404</u>                                 |
| Balances at December 31, 2024                      | <u>\$ 2,874,327</u>            | <u>\$ 2,565,913</u>                                       | <u>\$ 308,414</u>                             |

**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:

|                                     | 1% Decrease<br>(5.90%) | Current Discount<br>Rate (6.90%) | 1% Increase<br>(7.90%) |
|-------------------------------------|------------------------|----------------------------------|------------------------|
|                                     |                        | (thousands of dollars)           |                        |
| <b>PERS Plan</b>                    |                        |                                  |                        |
| Plan's NPL (NPA), December 31, 2025 | \$ 585,384             | \$ 209,662                       | \$ (102,832)           |
|                                     |                        |                                  |                        |
|                                     | 1% Decrease<br>(5.90%) | Current Discount<br>Rate (6.90%) | 1% Increase<br>(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](http://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:

|  | <u>December 31,</u>    |                   |
|--|------------------------|-------------------|
|  | <u>2025</u>            | <u>2024</u>       |
|  | (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<br>of total pension liability | <u>38,194</u>          | <u>24,474</u>     |
| Total deferred outflows of resources   | <u>\$ 150,769</u>      | <u>\$ 194,134</u> |
| 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                | <u>62,115</u>          | <u>-0-</u>        |
| Total deferred inflows of resources  | <u>\$ 62,880</u>       | <u>\$ 8,416</u>   |

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   | <u>2,327</u> | <u>2,261</u> |
| Total employees covered by benefit terms                                 | <u>4,825</u> | <u>4,718</u> |

**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)<br>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:

| <u>Asset Class</u> | <u>Target Allocation<br/>CERBT Strategy 1</u> | <u>Expected Real<br/>Rate of Return</u> |
|--------------------|---|---|
| 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%                                   |

| <u>Asset Class</u> | <u>Target Allocation<br/>CERBT Strategy 3</u> | <u>Expected Real<br/>Rate of Return</u> |
|--------------------|---|---|
| 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:

| <u>Asset Class</u> | <u>Target Allocation<br/>CERBT Strategy 1</u> | <u>Expected Real<br/>Rate of Return</u> |
|--------------------|---|---|
| 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%                                   |

| <u>Asset Class</u> | <u>Target Allocation<br/>CERBT Strategy 3</u> | <u>Expected Real<br/>Rate of Return</u> |
|--------------------|---|---|
| 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<br>Liability (a) | Increase (Decrease)<br>Plan Fiduciary Net<br>Position (b) | Net OPEB<br>(Asset) Liability<br>(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  | <u>43,836</u>               | <u>29,511</u>   | <u>14,325</u>                              |
| Balances at December 31, 2025                      | <u>\$ 469,771</u>           | <u>\$ 421,314</u>   | <u>\$ 48,457</u>                           |

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

|  | Total OPEB<br>Liability (a) | Increase (Decrease)<br>Plan Fiduciary Net<br>Position (b) | Net OPEB<br>(Asset) Liability<br>(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  | <u>28,236</u>               | <u>19,438</u>   | <u>8,798</u>                               |
| Balances at December 31, 2024                      | <u>\$ 425,935</u>           | <u>\$ 391,803</u>   | <u>\$ 34,132</u>                           |

**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<br>(4.93%) | Current Discount<br>Rate (5.93%) | 1% Increase<br>(6.93%) |
|------------------------------|------------------------|----------------------------------|------------------------|
|                              | (thousands of dollars) |                                  |                        |
| NOL/(NOA), December 31, 2025 | \$ 105,379             | \$ 48,457                        | \$ 843                 |

|                              | 1% Decrease<br><u>(5.02%)</u> | Current Discount<br><u>Rate (6.02%)</u> | 1% Increase<br><u>(7.02%)</u> |
|------------------------------|-------------------------------|---|-------------------------------|
|                              |                               | (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<br><u>Trend Rate</u> | 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](http://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:

|  | <u>December 31,</u>    |                  |
|--|------------------------|------------------|
|  | <u>2025</u>            | <u>2024</u>      |
|  | (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<br>of total OPEB liability | <u>12,281</u>          | <u>12,601</u>    |
| Total deferred outflows of resources   | <u>\$ 64,571</u>       | <u>\$ 58,215</u> |
| 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                     | <u>5,134</u>           | <u>-0-</u>       |
| Total deferred inflows of resources  | <u>\$ 16,385</u>       | <u>\$ 23,556</u> |

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:

|                                       | <u>2025</u>            | <u>2024</u>      | <u>2023</u>      |
|---------------------------------------|------------------------|------------------|------------------|
|                                       | (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 | <u>152</u>             | <u>1,204</u>     | <u>68</u>        |
| Claims liability                      | <u>\$ 12,731</u>       | <u>\$ 10,709</u> | <u>\$ 10,468</u> |

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

|   | <u>2025</u>            | <u>2024</u>      | <u>2023</u>      |
|---|------------------------|------------------|------------------|
|   | (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<br>prior years                  | 2,912                  | 343              | 1,752            |
| Less: payments on claims attributable to<br>current and prior years | <u>(3,850)</u>         | <u>(2,824)</u>   | <u>(4,709)</u>   |
| Claims liability, end of year                                       | <u>\$ 12,731</u>       | <u>\$ 10,709</u> | <u>\$ 10,468</u> |

## 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:

|      | <u>Electric</u>        | <u>Gas</u> |
|------|------------------------|------------|
|      | (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:

|      | <u>Electric</u>        | <u>Gas</u> |
|------|------------------------|------------|
|      | (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 or 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)                                   | <u>\$ 2,998,317</u>    | <u>\$ 2,874,327</u> | <u>\$ 2,679,268</u> | <u>\$ 2,553,780</u> | <u>\$ 2,486,667</u> | <u>\$ 2,415,034</u> | <u>\$ 2,327,689</u> | <u>\$ 2,230,323</u> | <u>\$ 2,214,995</u> | <u>\$ 2,040,497</u> |
| 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)                               | <u>\$ 2,788,655</u>    | <u>\$ 2,565,913</u> | <u>\$ 2,420,258</u> | <u>\$ 2,318,329</u> | <u>\$ 2,514,405</u> | <u>\$ 1,945,214</u> | <u>\$ 1,864,450</u> | <u>\$ 1,780,867</u> | <u>\$ 1,654,396</u> | <u>\$ 1,541,269</u> |
| Net pension liability/(asset), ending (a) - (b)                            | <u>\$ 209,662</u>      | <u>\$ 308,414</u>   | <u>\$ 259,010</u>   | <u>\$ 235,451</u>   | <u>\$ (27,738)</u>  | <u>\$ 469,820</u>   | <u>\$ 463,239</u>   | <u>\$ 449,456</u>   | <u>\$ 560,599</u>   | <u>\$ 499,228</u>   |
| 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

|  | 2025               | 2024               | 2023               | 2022               | 2021                | December 31,       |                    | 2017               | 2016          |               |
|--|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------|---------------|---------------|
|  |                    |                    |                    |                    |                     | 2020               | 2019               |                    |               |               |
| (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  | <u>\$ (26,095)</u> | <u>\$ (33,800)</u> | <u>\$ (47,333)</u> | <u>\$ (69,877)</u> | <u>\$ (175,125)</u> | <u>\$ (46,068)</u> | <u>\$ (20,000)</u> | <u>\$ (50,000)</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| 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.

|   | 2025                   | 2024       | 2023       | 2022       | 2021        | December 31, |            | 2018       | 2017       |
|---|------------------------|------------|------------|------------|-------------|--------------|------------|------------|------------|
|   |                        |            |            |            |             | 2020         | 2019       |            |            |
|   | (thousands of dollars) |            |            |            |             |              |            |            |            |
| <b>Total OPEB liability:</b>  |                        |            |            |            |             |              |            |            |            |
| 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 |
| <b>Plan fiduciary net position:</b>                                     |                        |            |            |            |             |              |            |            |            |
| 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.

|  | 2025                   | 2024       | 2023       | 2022       | 2021       | December 31, |            | 2018        | 2017        |
|--|------------------------|------------|------------|------------|------------|--------------|------------|-------------|-------------|
|  |                        |            |            |            |            | 2020         | 2019       |             |             |
|  | (thousands of dollars) |            |            |            |            |              |            |             |             |
| 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<br>Medicare (Non-Kaiser): 6.90% for 2026, decreasing to an ultimate rate of 3.45% in 2076<br>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.