

# Exhibit to Agenda Item #2

Discuss the monitoring report for **Strategic Direction SD-17, Enterprise Risk Management.**

Board Policy Committee and Special SMUD Board of Directors Meeting  
Wednesday, November 12, 2025, scheduled to begin at 6:00 p.m.  
SMUD Headquarters Building, Auditorium

# SD-17 Enterprise Risk Management (ERM)

Effectively balancing and managing risk to further SMUD's policies and business goals is a core value of SMUD.

Therefore:

SMUD will implement and maintain an integrated enterprise risk management process that identifies, assesses, prudently manages and mitigates a variety of risks facing SMUD, including financial, supply, operational, physical and cyber security, climate change, legal, legislative and regulatory, and reputational risk.

SMUD is compliant with SD-17, Enterprise Risk Management Policy

# Enterprise Risk Heat Map

Residual risk ratings

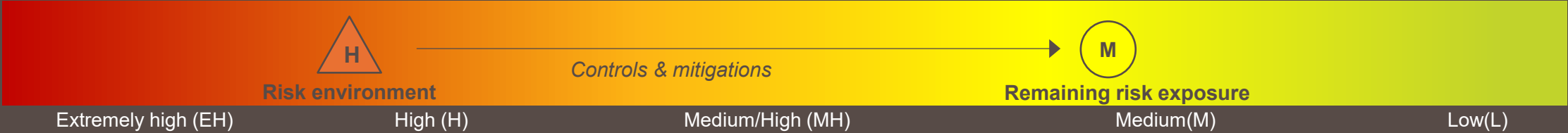
Rating scale: ■ Extremely High (EH), ■ High (H), ■ Medium-High (MH), ■ Medium (M), ■ Low (L)

Strategic Risks	Safety & Security	Reliability	Environmental	Customer & Community	Financial	Process & Technology	Our People
	■	■	■	■	■	■	■
Enterprise Risks	■ Safety	■ Resource Adequacy	■ Clean Energy Resources	■ Customer Experience	■ Economic Conditions & Financial Management	■ Technology Systems	■ Talent Management
	■ Cybersecurity	■ System Adequacy	■ Community Decarbonization	■ Reputational	■ Commodity Management	■ Data Governance & Privacy	■ Employee Experience
	■ Physical Security	■ Operational Adequacy	■ Environmental Stewardship	■ Inclusive Energy Transition		■ Supply Chain	■ Strategic Workforce
	■ Third-party	■ Grid Resiliency	■ Climate Change	■ Inclusive Economic Development		■ Artificial Intelligence & Emerging Technologies	
		■ Reliability Compliance		■ Customer Affordability			

# Reliability Risk

Risks related to keeping the lights on

SD-4 (Reliability) | SD-14 (System Enhancement)



Enterprise Risks	Risk environment (Inherent risk)	Remaining risk exposure (Residual risk)	2026 Risk trend	Recent changes & internal action
Resource Adequacy			=	<ul style="list-style-type: none"><li>The risk level is largely driven by extreme weather, which can cause service interruptions</li><li>Mitigation and control highlights from 2025 include continuation and modernization of proven risk reduction methods, such as:<ul style="list-style-type: none"><li>vegetation management</li><li>asset management</li><li>inspections</li></ul></li><li>Another highlight is our successful completion of the North American Reliability Corporation (NERC) audit</li><li>Related reports: SD-4 (June 2025) &amp; SD-14 (Aug 2025) Annual Monitoring Reports</li></ul>
System Adequacy			=	
Operational Adequacy			=	
Grid Resiliency			=	
Reliability Compliance			=	

# Environmental Risk

Risks related to our clean energy goals and environmental stewardship

Strategic Direction: SD-7 (Environmental Leadership) | SD-9 (Resource Planning)



Enterprise Risks	Risk environment (Inherent risk)	Remaining risk exposure (Residual risk)	2026 Risk trend	Recent changes & internal action
Clean Energy Resources			↑	<ul style="list-style-type: none"> <li>The risk level reflects changes this year at the federal level that impact the affordability and timing of clean energy resources and customer distributed energy resources</li> <li>Mitigation and control highlights from 2025 include: <ul style="list-style-type: none"> <li>Residential electrification tool</li> <li>Habitat Conservation Plan</li> <li>Continued progress on multiple utility-scale projects</li> </ul> </li> <li>Related reports: SD-7 &amp; SD-9 (Dec 2025) Annual Monitoring Reports</li> </ul>
Community Decarbonization			↑	
Environmental Stewardship			=	
Climate Change			=	

# Safety & Security Risk

Risks related to safety and security events involving our people, community and critical assets

Strategic Direction: SD-6 (Safety) | SD-16 (Information Management & Security)



Enterprise Risks	Risk environment (Inherent risk)	Remaining risk exposure (Residual risk)	2026 Risk trend	Recent changes & internal action
Safety			=	<ul style="list-style-type: none"> <li>The risk level is largely driven by the increasingly complex cybersecurity threat environment and the potential impact of a safety and security event on our operations, finances and reputation</li> <li>Mitigation and control highlights from 2025 include: <ul style="list-style-type: none"> <li>Mandatory cybersecurity training update</li> <li>Physical security assessment</li> <li>Enhanced third-party risk management</li> </ul> </li> <li>Related reports: SD-6 (Mar, Oct 2025) &amp; SD-16 (Nov 2025) Annual Monitoring Reports</li> </ul>
Cybersecurity			=	
Physical Security			=	
Third-party			=	

# Financial Risk

## Risks to our affordable rates

Strategic Direction: SD-2 (Competitive rates) | SD-3 (Access to credit markets) | SD-11 (Public Power Business Model) | SD-19 (Diversified business)



Drivers of Financial Risk (Enterprise Risks)	Risk environment (Inherent risk)	Remaining risk exposure (Residual risk)	2026 Risk trend	Recent changes & internal action
Economic Conditions & Financial Management			=	<ul style="list-style-type: none"><li>The residual risk level includes the economic changes we experienced this year, including rising costs and uncertainty driven by supply chain disruptions, inflation, tariffs and impacts from federal policy changes</li><li>Mitigation and control highlights from 2025 include:<ul style="list-style-type: none"><li>Tax credit for Solano 4</li><li>Insurance reserves and stabilization funds</li><li>SMUD Financing Authority (SFA) consolidation</li></ul></li><li>Related reports: SD-2 (Feb 2025), SD-3 (Feb 2025), SD-11 (Dec 2025) &amp; SD-19 (Oct 2025) Annual Monitoring Reports</li></ul>
Commodity Management			=	

# 2026 ERM Look-Ahead

Improvements to the Enterprise Risk Management framework:

- Continue to build a risk-intelligent culture with improved tools and internal reporting
- Identify and track leading indicators and risk tolerances

Board Reporting:

- Return to annual board presentations
- Continue to provide quarterly risk memos outlining commodity risk and any changes to enterprise risks