

# Exhibit to Agenda Item #3

Discuss authorization of SMUD's Accountant to defer recognition of \$121 million of 2024 operating revenues to offset the following: 1) \$20 million future Community Impact Plan expenditures through 2028; 2) \$60 million for future unexpected increases in Commodity expenditures through 2030; and 3) \$41 million for future one-time specific expenditures in order to match such expenditures in the appropriate accounting period for rate-making purposes.

Board Finance & Audit Committee and Special Board of Directors Meeting  
Tuesday, November 19, 2024, scheduled to begin at 6:00 p.m.  
SMUD Headquarters Building, Auditorium

# Requested Action

Discuss authorization of SMUD's Accountant to defer recognition of \$121 million of 2024 operating revenues to offset the following: 1) \$20 million future Community Impact Plan expenditures through 2028; 2) \$60 million for future unexpected increases in Commodity expenditures through 2030; and 3) \$41 million for future one-time specific expenditures in order to match such expenditures in the appropriate accounting period for rate-making purposes.

# 2024 Financials – Update

- Higher retail sales revenue due to higher customer usage – \$52 million
- Lower Commodity costs due to favorable market prices to procure power and gas - \$36 million
- Large one-time receipts
  - Cosumnes Power Plant – settlement payment on Business Interruption Insurance recovery - \$89 million
  - Substation A – settlement on fire claim - \$7.5 million
  - Rancho Seco Claim - \$5.8 million

# Rate Stabilization Fund

- Community Impact Plan
  - Presented to the Board in August 2022
  - Aligns with 2030 Zero Carbon plan spending for pilots and programs
  - In 2022 - Identified \$41 million of expenditures for 2022 through 2025
  - **Request to set aside an additional \$20 million for Community Impact Plan expenditures through 2028**
- Commodity Expenses
  - Recent Power price volatility in the market
  - **Create a \$60 million Commodity Stabilization fund**
  - **Reserve to cover large fluctuations in commodity market through 2030**

# Rate Stabilization Fund

- In 2020 and 2021 SMUD deferred \$35 million/year of operating revenues for total \$70 million
  - Provide reserves to cover large contingencies
  - Provide operational flexibility where spending is not tied to specific year
  - Mitigate risks from unforeseen or one-time events:
    - Catastrophic events
    - Wildfire costs
    - Additional 2030 Zero Carbon plan spending for pilots and programs
- In 2022 - reduced by \$41 million for Community Impact Plan
- **Request to increase by \$41 million to get to prudent level of \$70million balance**

# Regulatory Accounting

- Governmental Accounting Standards Board (GASB) allows regulated entities to defer revenues as a regulatory liability for recognition in future years
- Deferral allows for appropriate matching of revenue with expense recognition for rate making purposes

# Recommendation

Staff recommends that the Board authorize SMUD's Accountant to defer recognition of \$121 million of 2024 operating revenues to offset the following: 1) \$20 million future Community Impact Plan expenditures through 2028, 2) \$60 million for future unexpected increases in Commodity expenditures through 2030 and 3) \$41 million for future one-time specific expenditures in order to match such expenditures in the appropriate accounting period for rate-making purposes