Exhibit to Agenda Item #1

a. Adopt a resolution stating SMUD’s intent to exercise the authority in Section 12773 of the California Municipal Utility District Act, where SMUD may hold nonstock security in a corporation or other private entity if such security is acquired as part of a procurement of goods or services from that entity, provided no separate funding is expended solely for the nonstock security, and not more than three nonstock security acquisitions are made during the period starting January 1, 2020, to January 1, 2025.

b. Adopt a pilot program and policy governing the acquisition of nonstock security.

c. Authorize the Chief Executive Officer and General Manager to operate the Nonstock Security Pilot Project Program.

Board Energy Resources & Customer Services Committee and Special SMUD Board of Directors Meeting

Wednesday, December 9, 2020, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)
AB 689 (McCarty)/12773 MUD Act

Authorizes SMUD to operate a pilot project that allows SMUD to hold security in a corporation or other private entity that is not stock (i.e., nonstock), under certain circumstances:

1. Nonstock security acquisition must be part of a procurement of goods/services from the entity
2. No separate funding for the acquisition
3. Value of an acquisition limited to <3% of SMUD’s annual revenue in the fiscal year the acquisition was made
4. Limited to 3 acquisitions
5. Pilot project has a term of 5 years (ending Jan. 1, 2025)
Nonstock Security Example: Warrant

- Right to purchase stock at a certain price until the expiration date
- Could be sold
- Value of warrant may increase over time
AB 689 (McCarty)/12773 MUD Act

The new law requires that the Board adopt a policy governing the acquisitions that includes, at a minimum:

1. Procedures for preventing conflicts or interest

2. Procedures for determining how much of an acquisition to accept to ensure a reasonable return on any SMUD resources provided to the private entity

3. Procedures for governing the approval process for accepting any acquisitions

4. Procedures that ensure acquisition does not unduly influence the price paid for procured goods/services
Nonstock Security Pilot Project Program

1. Board approval is required prior to entering into an acquisition agreement; and when deciding to sell the nonstock security
2. Procedure for preventing conflicts of interest
3. Procedure for determining how much of an acquisition to accept to ensure a reasonable return on any SMUD resources provided to the private entity
4. Procedure to ensure acquisition does not unduly influence the price paid for procured goods/services
5. Annual reporting to the Board
6. Distribution of any proceeds from the sale of an acquisition to benefit SMUD ratepayers
Partnering Options Available

**Discounts**
- Price discounts on SMUD procured products or services
- Prevalent SMUD approach

**Revenue Share & Licensing**
- Royalties on sales of products SMUD contributed to or license of SMUD Intellectual Property (IP) used in products
- Newer approach

**Nonstock Securities**
- Warrants negotiated based upon value SMUD contributes to partner’s company
- Enabled by AB 689

**Extent**
- Limited to specific procurement
- Potential only as large as size of SMUD’s procurements

- All specific products sold by partner
- Potential larger since it applies to other sales beyond SMUD’s procurement

- Broadens value creation to company’s value, not just specific products
Questions