Exhibit to Agenda Item #5

Authorize SMUD’s Accountant to defer recognition of $35 million of 2021 operating revenues to offset future one-time specific expenditures in order to match such expenditures in the appropriate accounting period for rate-making purposes.
2021 Financials – Unusual Events

COVID-19 impact on 2021 Finances

• Revenues higher than plan due to the assumption we would return to pre-pandemic conditions in early 2021; resulted in higher residential sales

• Expenses lower
  - Focus on setting ambitious 2030 Zero Carbon Plan
  - COVID reduced business activities
  - Caldor wildfire prevented some planned maintenance

• Increase in customer delinquency balances with partial offset from $41 million in California Arrearage Payment Program (CAPP) funding

• Resulting in higher net income than planned
Options Considered

1. Revenue Deferral - Recommended

2. No Deferral – funds included in unrestricted funds
   • Metrics most favorable for capital project spending
   • 2030 Zero Carbon Plan – greater Operations and Maintenance (O&M) spending compared to traditional centralized electric utility model
Benefits of Deferral of Revenues

• Help offset future one-time expenditures
• Mitigate risks from unforeseen or one-time events
• Provide reserves to cover large contingencies
• Aligns with 2030 Zero Carbon plan O&M spending for pilots and programs
• Operational Flexibility - Spending not tied to specific year
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