Exhibit to Agenda Item #2
Accept the monitoring report for Strategic Direction SD-17, Enterprise Risk Management.

Board Policy Committee and Special SMUD Board of Directors Meeting
Wednesday, November 16, 2022, scheduled to begin at 5:30 p.m.
Virtual Meeting (online)
2022 Headwinds – Why Do We Manage Risk?

- Inflationary Pressure
- Federal Reserve tightening
- Supply chain constraints
- Russia-Ukraine conflict
- Volatile commodity prices
- Unplanned outage at CPP
- Record heatwave

Staff continuously monitors changes or the emergence of risks that have the potential to adversely impact SMUD’s business objectives.
Staff Proactively Work to Prevent Potential Risk Events Through Mitigations and Controls

- Wildfire & Cyber tabletop exercises
- Supply Chain management improvements
- Business continuity planning
- Risk based CIP compliance program
- Commodity hedging
- Interest rate risk hedging
- Insurance
- Reserves and access to liquidity and capital

November 16, 2022  Board Policy Committee and Special SMUD Board of Directors Meeting
**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**
ERM Approach and Methodology

Approach
• Governance (Board Strategic Direction)
• Oversight & Accountability (EROC)
• Consistent Definitions and Language (ERM Framework)
• Integration of ERM with Key Business Processes

Methodology
• Enterprise Risk Analysis (focused on top risks)
• Monthly EROC Meetings
• Annual and Periodic Review of Enterprise Risk Portfolio
SMUD’s risk are consistent with benchmarking NCSU/Protiviti Research Top 10 risks

1. Succession challenges, ability to attract and retain top talent
2. Uncertainties in supply chain
3. Regulatory changes and scrutiny
4. Growing focus on climate change policies may alter strategy and business models
5. Resistance to change in our culture may restrict organization from making necessary adjustments to business model and core operations
6. Organization’s culture may not sufficiently encourage timely identification and escalation of risk issues
7. Third-party risks arising from reliance on outsourcing and strategic sourcing arrangements that could prevent us from meeting targets or impact brand image
8. Shifts in perspectives and expectations about social issues and priorities surrounding DEIB occurring faster than organization is able to manage
9. Privacy/identity management and information security protection
10. Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization
2022 Enterprise-wide Risk Activities and Outcomes

1. Increase capabilities in Enterprise Risk Management

2. Build resiliency for future impacts and capabilities for future opportunities

3. Moving from compliance base to risk base approach

4. Demonstrated SMUD’s leadership in addressing carbon reduction

5. Bolster SMUD’s ability to respond to unanticipated incidents

6. Increase operational efficiencies through the alignment of audit and risk functions
Risk change since 2021 Board Monitoring Report

Risk Decrease
• Emergency Management Center (decrease from high to medium)
• Backup control center (decrease from medium to low)

Changed Risk Categories
• Battery Storage consolidated in with NEM
• Reliability
  • System Adequacy
  • Operational Adequacy
  • Resource Adequacy