

SMUD OVERVIEW



1.5
million

Service Area Population

Record Peak Demand

3,299

megawatts on

JULY 2006

| S | M | T | W | T | F | S |
|----|-----------|----|----|----|----|----|
| | | | | | | 1 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 23 | 24 | 25 | 26 | 27 | 28 | 29 |
| 30 | 31 | | | | | |



Employees
(year end)

2,278

Authorized Budget

\$1.7 billion

Customer Contracts
(year end)

635,137

Credit Rating



AA

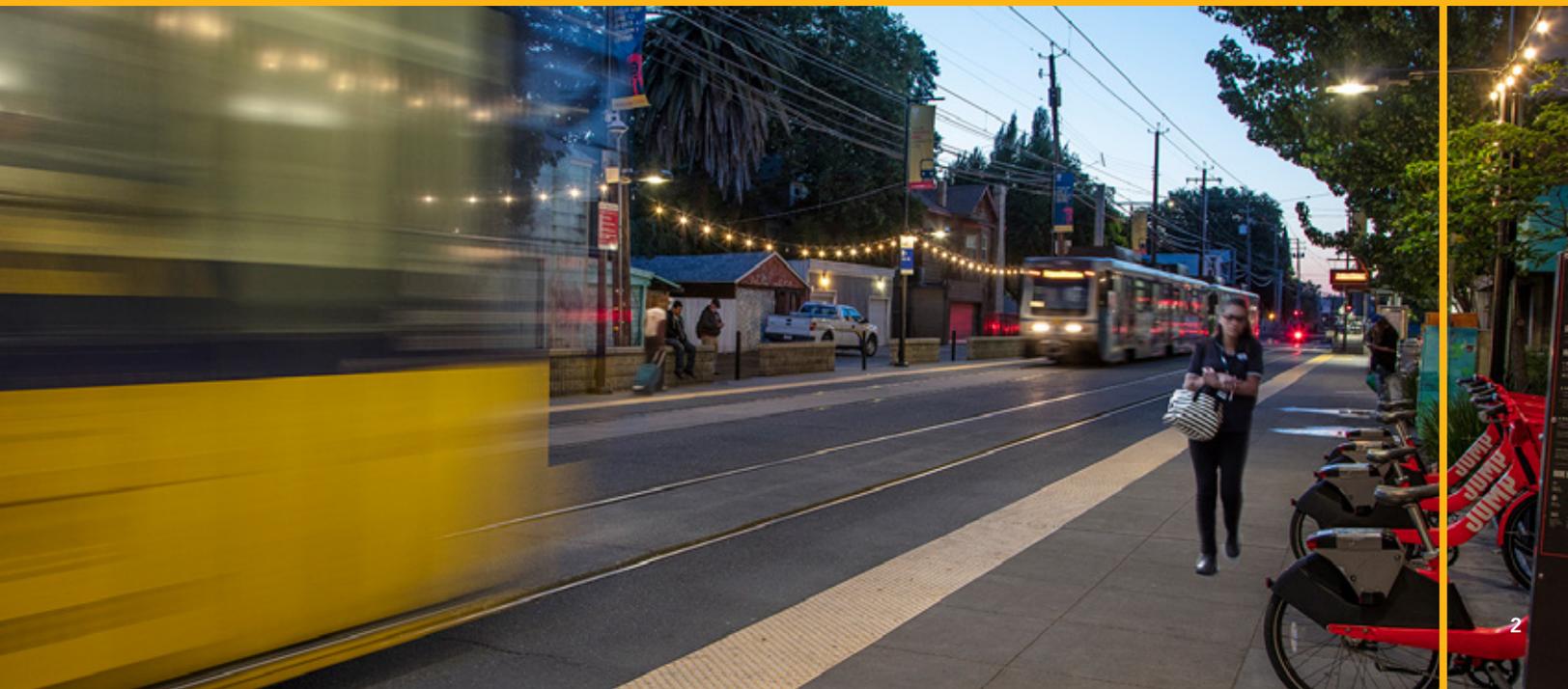
Standard & Poor's

Aa3

Moody's

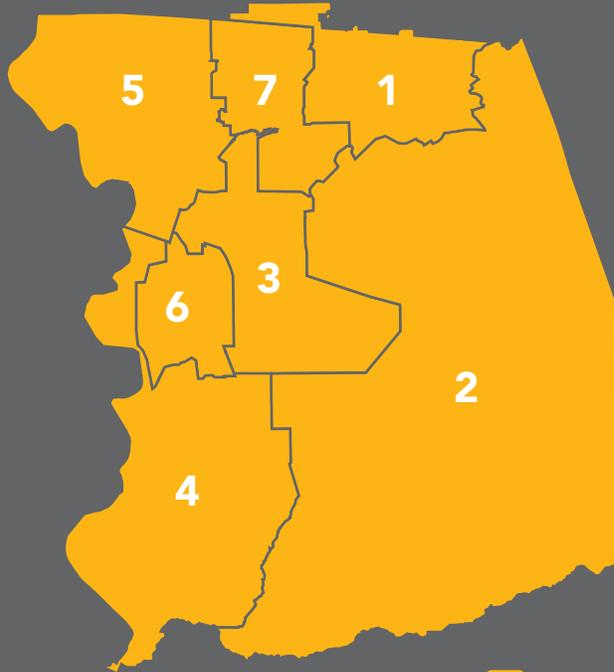
AA

Fitch



SMUD OVERVIEW

SMUD Service Area and Board Member Wards



The Sacramento Municipal Utility District generates, transmits and distributes electricity to a 900-square-mile territory that includes California's capital city, Sacramento County, and small portions of Placer and Yolo counties. As a publicly owned utility, SMUD is governed by a seven-member Board of Directors elected by the voters to staggered four-year terms. The SMUD Board of Directors determines policy and appoints the chief executive officer/general manager, who is responsible for SMUD's day-to-day operations.

SMUD BOARD OF DIRECTORS

Brandon Rose
Ward 1

Nancy Bui-Thompson
Ward 2

Gregg Fishman (*President 2018*)
Ward 3

Genevieve Shiroma
(*Rosanna Herber was elected in 2018*)
Ward 4

Rob Kerth (*Vice President 2019*)
Ward 5

Dave Tamayo
(*Vice President 2018, President 2019*)
Ward 6

Bill Slaton
(*Heidi Sanborn was elected in 2018*)
Ward 7

EXECUTIVE MANAGEMENT

Arlen Orchard
CEO & General Manager

Laura Lewis
Chief Legal Officer

Jennifer Davidson
Chief Financial Officer

Paul Lau
*Chief Grid Strategy
& Operations Officer*

Gary King
Chief Workforce Officer

Frankie McDermott
Chief Energy Delivery Officer

Nicole Howard
Chief Customer Officer

Stephen Clemons
Chief Information Officer

“ CEO LETTER



Each year brings its own opportunities and challenges, but I’m confident in saying that 2018 will go down as a watershed year for SMUD. Without losing sight of the daily basics, we devoted much of our effort in 2018 to an issue of great importance – not just to SMUD and our customers but to the health and prosperity of the entire Sacramento region.

I’m referring specifically to the SMUD Board’s passage in October of an Integrated Resource Plan (IRP) that puts us on path to reach a greenhouse gas emission target of net zero by 2040. In the past, these resource plans

focused largely on the capacity and energy needed to meet customer demand. SMUD’s current IRP takes a much bolder approach by maximizing local investment, supporting local economic development and innovation, reaching disadvantaged communities, improving air quality, and lowering the region’s carbon footprint.

We’re not taking this bold approach because the state told us to. In fact, our goals are more ambitious than the state’s. We’re doing it because it’s the right thing to do – for our customers, for our community, and for our grandchildren and their children.

A key component of SMUD's IRP is a \$1.7 billion investment over the next 20 years in the electrification of buildings and transportation. We initiated several first-in-the-nation partnerships with homebuilders to incentivize the construction of all-electric homes. SMUD has spent more than \$20 million in the last five years supporting electric transportation, an investment that will grow significantly in the next few years.

AS CALIFORNIA'S RELIANCE ON CARBON-BASED FUELS DECREASES EACH YEAR, INCREASED BUILDING AND TRANSPORTATION ELECTRIFICATION WILL REDUCE GREENHOUSE GAS EMISSIONS, IMPROVE AIR QUALITY AND ADVANCE ECONOMIC DEVELOPMENT ACROSS THE REGION. IT'S WHY THE THEME OF THIS REPORT IS "ELECTRIC SOLUTIONS."

As I mentioned at the beginning, SMUD remains focused on getting the basics right each day. This means meeting our customers' expectations for safe, reliable, affordable and environmentally responsible energy. We did just that in 2018 while finishing the year in a strong financial position.

SMUD's net income in 2018 was \$209.1 million, approximately \$80 million higher than planned. We exceeded our goal for fixed charge ratio and ended the year with sizable balances in our rate stabilization and hydro rate stabilization funds. We achieved major milestones in our strategy to develop new sources of revenue in 2018. SMUD's first two Community Choice Aggregator customers, Valley Clean Energy in Yolo County and East Bay Community Energy in Alameda County, became operational in 2018.

In 2018, we began implementing two of the most significant rate overhauls in SMUD's seven-decade history. We began the transition of all residential customers to Time-of-Day Rates and rolled out our new Energy Assistance Program Rate for low-income customers. Time-of-Day Rates give customers the opportunity to manage their bills by shifting usage to lower-cost time periods. The overhaul of our low-income assistance rate ensures that SMUD assists the customers who need it the most.

Support for low-income communities is part of a broader strategy to holistically align our rates and programs to help our disadvantaged communities. We've developed a Sustainable Communities strategy that combines SMUD's efforts with those of our regional partners to make life better for all Sacramentans.

Our rates remain among the lowest in California – 36 percent lower than neighboring PG&E's as of March 2019 – and we met our reliability targets for frequency and duration of outages. While SMUD's service territory did not experience any of the wildfires that ravaged the state in 2018, we enhanced our fire prevention and mitigation efforts in El Dorado County, where our Upper American River Project provides our customers with carbon-free hydroelectricity. SMUD is preparing a Wildfire Mitigation Plan in compliance with Senate Bill 901 and anticipates releasing a draft for public comment in 2019.

By 2020, we expect digital channels to be the primary way customers do business with SMUD. We delivered several enhancements in 2018 that support our digital-first strategy, the most noteworthy being the launch of a SMUD App that features usage, bill pay and outage functionalities.

We made significant progress on the “value for what you pay” metric adopted by the SMUD Board and continue to meet customer satisfaction targets. We strengthened our connection to the community by providing more than \$425,000 in Shine neighborhood awards, and our employees personally donated almost \$500,000 to non-profits in 2018 through the SMUD Cares charitable giving program.

I encourage you to read more about the Electric Solutions we're developing across the board.

Sincerely,



Arlen Orchard
SMUD CEO & General Manager





YEAR IN REVIEW

STRONG FINANCIAL FOOTING

SMUD ended 2018 in a strong financial position. Net income was \$209.1 million, approximately \$80 million higher than planned. Repurchasing the third phase of the Solano Wind Farm resulted in a favorable adjustment of \$46.7 million.

SMUD ended the year with an unrestricted cash and investment balance of \$478.3 million along with a Rate Stabilization Fund balance of \$32.6 million and a Hydro Rate Stabilization Fund balance of \$64.1 million. In June 2018, SMUD made an additional \$50 million contribution to help reduce its unfunded CalPERS pension liability.

The full, audited financial report begins on page 25 of this report.

SMUD customers continue to pay significantly less for electricity than most Californians. In early 2019, SMUD’s average residential rates were approximately 36 percent lower than neighboring PG&E’s.

Comparison of electric bills based on 750 kWh electric usage

| Utility | Average Monthly Bill | % SMUD below Utility |
|-------------|----------------------|----------------------|
| SMUD | \$113.79 | |
| PG&E | \$178.11 | 36.1% |
| Roseville | \$113.74 | 0.0% |
| Turlock | \$114.74 | 0.8% |
| Modesto | \$133.92 | 15.0% |
| LADWP | \$150.04 | 24.2% |
| SCE | \$154.10 | 26.2% |
| SDG&E | \$217.36 | 47.7% |

as of March 1, 2019



TIME-OF-DAY RATES

SMUD began transitioning its residential customers to a new Time-of-Day (TOD) rate structure in October 2018. The transition was completed in May 2019.

With TOD rates, customers will see much lower rates for the eight non-summer months as well as on weekends and holidays the entire year. Rates will be higher during the peak summer hours (Monday through Friday, 5 to 8 p.m.) when it costs the most to provide electricity.

SMUD is the first large California utility to make TOD rates standard for all residential customers, though other utilities are laying the same groundwork and will follow suit soon.

TOD rates better align rates with the cost of providing electricity, send more accurate price signals to customers, and give them the opportunity to better manage their electricity bills by shifting usage to lower-cost time periods.

SMUD's commercial customers have been on TOD rates for several years.

As 2019 began, the transition to residential TOD rates was proceeding smoothly, with approximately 185,000 customers having made the switch. To prepare our customers for the biggest rate redesign in SMUD's history, we developed a comprehensive marketing, education and outreach campaign. The goal is to make sure customers are aware of the change, learn how it might impact them, and give them easy-to-use tools that help them make decisions for their individual circumstances and needs.

Prior to the transition, the SMUD Board approved investments of more than \$10 million in programs and services for disadvantaged communities to assist low-income customers in making the transition to TOD rates.



EAPR

Support for low-income communities is an important part of SMUD's broader strategy to align its rates and programs to benefit disadvantaged communities. SMUD offers the Energy Assistance Program Rate (EAPR). Customers with the lowest household incomes, based on the federal poverty level, receive the largest discounts on their monthly bills.

In addition to the rate discount, EAPR pilot programs benefitted 6,124 low-income households in 2018, a significant increase from 3,468 households assisted in 2017. The 2018 efforts included:

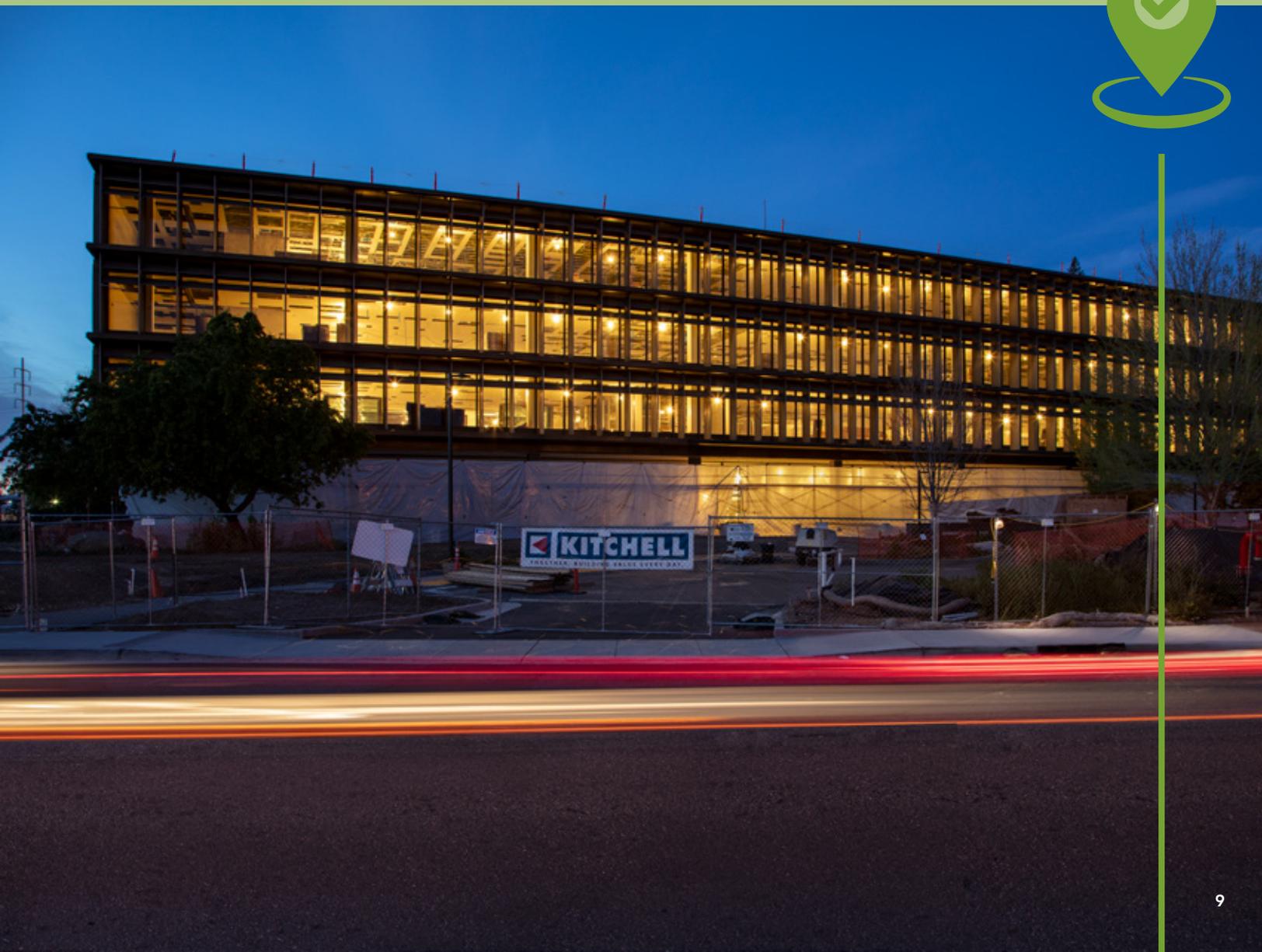
- 32 solar installations coupled with energy efficiency products;
- 579 deep home retrofits;
- 3,462 bundled energy efficiency products for apartment tenants and single-family residents;
- 919 energy efficiency products for mobile home and master meter mobile home tenants; and
- More than 1,100 weatherization installations.

SEED

The Supplier Education and Economic Development program, better known as SEED, offers incentives for local small businesses to participate in SMUD's competitive bid process. SMUD's goal is to award 20 percent of all contracts to certified small businesses.

In 2018, 30 percent of the contracts awarded went to SEED-qualified small businesses, for a total amount of \$109 million. More than \$20 million of the contracting work on the rehabilitation of the SMUD Headquarters building (pictured below) was committed to SEED businesses.

To further support job creation and economic development across the Sacramento region, SMUD also deposited \$15 million in three banks to provide for local lending.



SUSTAINABLE COMMUNITIES INITIATIVE

The SMUD Board's mission is to enhance the quality of life for our customers and community. The Sustainable Communities initiative that SMUD will continue rolling out in 2019 focuses on the further development of economically and environmentally sustainable neighborhoods throughout the region.

Studies have shown – and our eyes can see – that significant social, economic and environmental disparities exist in the greater Sacramento region. These inequities are holding the entire region back from realizing its full potential.

The goal of Sustainable Communities effort is to advance prosperity of everyone in the Sacramento region. This includes focusing on healthy neighborhood environments, improved education outcomes, job creation, access to transportation, and strengthening partnerships with civic networks and institutions.

Whether it be offering financial assistance through our Powering Futures scholarship program or supporting community development through our Shine neighborhood awards, SMUD is already doing a lot of good things. It's something we've done for more than 70 years.

At the same time, we've come to understand that not all of our customers and communities have benefitted equally from having SMUD be their community-owned utility. We also understand that we can't eliminate these inequities by ourselves. By leveraging external partnerships, we can maximize our collective impact to help those most in need and ensure that all of our customers and communities share in the region's bright future.



GREENERGY®

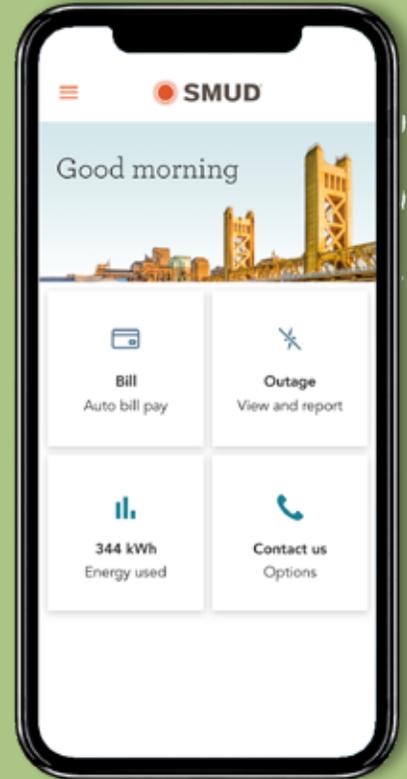
SMUD's Greenergy program grew 19 percent in 2018, ending the year with approximately 71,000 participants. The nationally recognized program allows customers to select carbon-free energy for either 100 percent or 50 percent of their electricity use for an extra fee each month.

SMUD APP

The new SMUD App hit the virtual shelves of Apple App and Google Play Stores in 2018, giving customers an opportunity to connect and engage with SMUD whenever and wherever they want.

It's part of SMUD's digital-first strategy – the recognition that by 2020, digital channels will be the primary way customers do business with their community-owned utility.

With the SMUD App, residential customers have the power to manage their accounts with single sign-on access. Once logged in, customers can review current and past bills, make or schedule payments, view and report past bills, make or schedule payments, view and report outages, see their monthly energy usage, and more.



SMUD JOINS GROWING CCA MARKET

SMUD's first two CCA (Community Choice Aggregator) customers became operational in 2018. Valley Clean Energy in Yolo County and East Bay Community Energy in Alameda County contracted with SMUD to develop and maintain various services for each community-owned electricity provider.

In California, communities can come together to choose to be the energy supplier, or CCA, within an investor-owned utility's service territory. SMUD currently provides call center, data management and other services to Valley Clean Energy and East Bay Community Energy.

The trend toward CCAs is driven by a number of factors, including a desire for community control over energy supply decisions and a cleaner, more sustainable power mix. SMUD's mission aligns with the CCA model of local control, renewable energy, greenhouse gas reduction, customer choice and price stability.