Exhibit to Agenda Item #4

- a. Enterprise Risk Management Update.
- b. Discuss potential revisions to the Energy Risk Management and Energy Trading Standards.

Board Policy Committee and Special SMUD Board of Directors Meeting Wednesday, June 12, 2024, scheduled to begin at 6:00 p.m. SMUD Headquarters Building, Auditorium



Enterprise Risk Management Background

- The purpose of today's discussion is to update the Board on our refreshed approach to Enterprise Risk Management
- Our current state includes:
 - Governance (Board Strategic Direction SD-17)
 - Oversight & accountability (Enterprise Risk Oversight Committee)
 - Enterprise Risk Management (ERM) framework
 - Integration of ERM with business processes
 - Enterprise risk analysis
 - Annual and periodic review of enterprise risk portfolio, including prioritization and benchmarking
 - Risk champion network



Drivers for a refresh to our Enterprise Risk Management approach

Examples of recent events that demonstrate a need for enhanced risk activities:

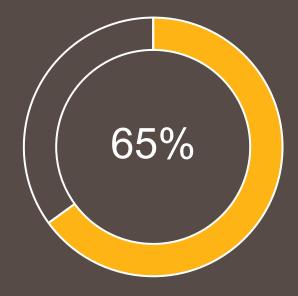
- Consumnes Power Plant (CPP) outage
- Commodity cost volatility
- Unprecedented storms

In addition, SMUD will need to manage emerging areas of change such as:

Load growth due to electrification

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 Energy supply characteristics are we advance our 2030 Clean Energy Vision



According to the 2023 *The State of Risk Oversight Report* from North Carolina State University, 65% of respondents surveyed from over 454 organizations said that the *volume and complexity of risks have increased over the past 5 years.*



KPMG Enterprise Risk Management Maturity Assessment

- Internal Audit Services, with the expert assistance of KPMG, completed a maturity assessment of SMUD's Enterprise Risk Management program in April 2024 to identify potential areas for improvement
- KPMG recommended four key focus areas:

Opportunity to establish a common risk language, taxonomy, and reporting across the organization

(Standardization)

Opportunity to better align strategic goals with existing enterprise risk management efforts and align views of Executives and Directors

(Prioritization)

Opportunity to connect top-down with bottom-up views and establish risk metrics to understand risk exposure

(Aggregation and Simplification)

Opportunity to connect risk insights across risk owners through expanded coverage and identification of interdependencies

(Interconnectedness)

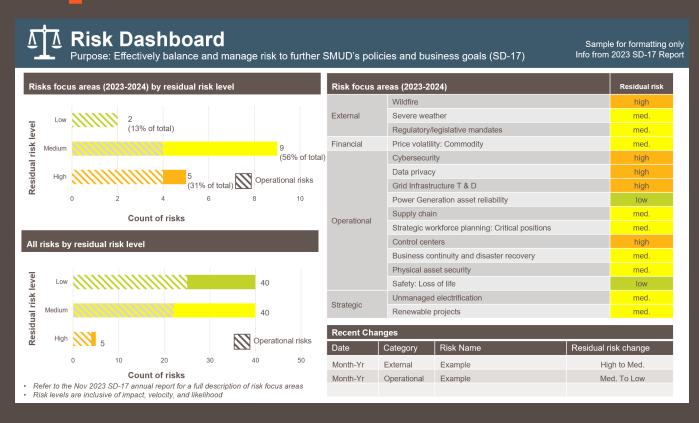


Summary of refreshed approach to Enterprise Risk Management and Board reporting

		Historical approach	Refreshed approach
Framework	Org Structure	Risk part of Treasury	Risk part of Enterprise Strategy
	Simplification	Bottom-up risk identification	Connect top-down and bottom-up risks
	Risk-aware culture	Trainings specific to certain risk areasEngagement with risk owners	 Historical approach plus: Strategy Forum & Risk Champions Network as "eyes and ears" More regular risk training and workshops
	Data	 Data used to assess certain risks 	 More consistent use of data to measure risk exposure
Reporting	Risk reporting	SD-17 annual report & presentation	SD-17 annual report & presentationQuarterly risk report & presentation
	Commodity reporting	 Monthly commodity risk exposure summary 	Quarterly commodity risk exposure analysis integrated with quarterly risk report



2024 Quarterly Enterprise Risk Management Report



Note: This is a representative sample intended to display formatting changes only. The sample uses content from the Nov 2023 Strategic Direction SD-17 report available on smud.org. The format of the first quarterly dashboard may differ slightly once updated with current information.

- Risk focus areas emphasized
- Changes highlighted
- Monthly commodity risk exposure snapshot replaced with a quarterly exposure analysis (not shown)
- As our Enterprise Risk
 Management program matures,
 so will this report



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Recommendation

Approve proposed revisions to the Energy Risk Management and Energy Trading Standards

