



Staff Report Item 16

TO: East Bay Community Energy Board of Directors

FROM: Howard Chang, Chief Operating Officer

SUBJECT: East Bay Community Energy Financial Reserves Policy (Action Item)

DATE: June 20, 2018

Recommendation

Approve a Financial Reserves Policy for EBCE providing for four separate funds including:

- A. Operating/Credit Reserve for the purpose of supporting agency credit;
- B. Rate Discount Reserve to help ensure that EBCE can maintain rate parity with PG&E;
- C. Collateral Reserve to allow the posting of collateral for energy and related purchases; and
- D. Local Development Reserve that allows multi-year local program funding commitments.

Discussion

EBCE's reserve policy consists of four separate funds that EBCE intends to fund at the end of each fiscal year out of surplus revenues. The maximum reserve contributions outlined herein shall not be treated as absolute maximum's and additional funds can be added at the discretion of the Board of Directors.

1) **General Operating/Credit Reserve:**

- a) Create a long-term general operating/credit reserve with a target balance of six months of operating expenses kept in unrestricted cash and short-term investments (where capital is liquid within 30 days).
- b) Provided rates can be kept competitive with PG&E, EBCE will contribute an annual contribution to the general operating/credit reserve of 10% of annual revenues. Rates will be deemed competitive if EBCE's average retail generation rate, inclusive of all fees, is equal to PG&E's average retail generation rate.

- c) If rates cannot be kept competitive per definition 1b), then EBCE will reduce its contribution to the general operating/credit reserve so that EBCE's average retail rate is equal to PG&E's average retail rate. Under no circumstance, however, will the amount planned to provide for the operating/credit reserves be less than 5% of total annual forecasted revenue.
- d) Once EBCE has met its General Operating/Credit Reserve goal of six months of operating expenses, EBCE will revisit this policy to assess how to re-allocate revenues. As part of this assessment, EBCE will prioritize increasing renewable energy procurement, local development and rate discounts.
- e) Eligible investments are those allowed by the State of California, including CDs, money market accounts, approved county investment funds, and collateralized bank deposits. In no event will EBCE intentionally invest in speculative or risky investments. EBCE will invest all funds in compliance with the EBCE Risk Management Policy.

2) Rate Credit Reserve

- a) Create a rate stabilization reserve with a target balance of 1.5% of annual operating revenues kept in short-term investments (where capital is liquid within 90 days).
- b) Provided rates can be kept competitive with PG&E, EBCE will make an annual contribution to the rate stabilization reserve of 1.5% of annual revenues. Rates shall be deemed competitive if EBCE's average retail generation rate, inclusive of all fees, is equal to PG&E's average retail generation rate.
- c) Each year, EBCE will evaluate its retail rates relative to those of PG&E to determine if a distribution from the rate stabilization reserve is necessary to ensure EBCE retail rates remain competitive with those of PG&E. If EBCE finds that its retail rates are forecast to surpass those of PG&E, EBCE will utilize the Rate Stabilization Reserve to equalize its rates as much as possible with PG&E's.
- d) If rates cannot be kept competitive per definition 1b), then EBCE will reduce its contribution to the rate stabilization reserve so that EBCE's average retail rate is equal to PG&E's average retail rate.
- e) EBCE will not make incremental contributions to the rate stabilization fund once the 1.5% target balance is met.
- f) Eligible investments are those allowed by the State of California, including CDs, money market accounts, approved county investment funds, and collateralized bank deposits. In no event will EBCE intentionally invest in speculative or risky investments. EBCE will invest all funds in compliance with the EBCE Risk Management Policy.

3) Collateral Reserve

- a) Create a collateral reserve with a target of 10% of annual energy-related expenses set-aside in cash and short-term investments for use as collateral in energy purchases.

- b) Provided rates can be kept competitive with PG&E, EBCE will make an annual contribution to the collateral reserve of 2% of annual revenue. Rates will be deemed competitive based on the definition in 1b).
- c) If rates cannot be kept competitive per definition 1b), then EBCE’s contribution to the collateral reserve will be reduced so that EBCE’s average retail rate is equal to PG&E’s average retail rate. Under no circumstance, however, will the amount planned to provide for the Collateral reserves be less than 0.5% of total annual forecasted revenue.
- d) Eligible investments are those allowed by the State of California, including CDs, money market accounts, approved county investment funds, and collateralized bank deposits. In no event will EBCE intentionally invest in speculative or risky investments. EBCE will invest all funds in compliance with the EBCE Risk Management Policy.
- e) Contributions to the Collateral Reserve may cease when EBCE has secured a credit rating.

4) Local Development Reserve

- a) Create a Local Development Reserve with a target of 10% of annual revenues set-aside in cash and short-term investments for use as collateral in local energy purchases and support local development programs where EBCE can leverage the financial reserves to stimulate more local resources.
- b) Provided rates can be kept competitive with PG&E, EBCE will make an annual contribution to the Local Development reserves of 2.5% of annual revenues. Rates shall be deemed competitive based on the definition in 1b).
- c) If rates cannot be kept competitive per definition 1b), then EBCE’s contribution to the Local Development Reserve will be reduced so that EBCE’s average retail rate is equal to PG&E’s average retail rate. Under no circumstance, however, will the amount planned to provide for the Local Development reserves be less than 1% of total annual forecasted revenue.
- d) Eligible investments are those allowed by the State of California, including CDs, money market accounts, approved county investment funds, and collateralized bank deposits. In no event will EBCE intentionally invest in speculative or risky investments. EBCE will invest all funds in compliance with the EBCE Risk Management Policy.

Table 1 - Overview of Reserve Policies

	Target	Max Annual Contribution	Min Annual Contribution
Operating/Credit Reserve	6 months of Operating Expense	10% of revenues	5% of revenues
Rate Stabilization	1.5% of Revenues	1.5% of revenues	0.5% of revenues

Collateral	10% of Energy Expense	2% of revenues	0.5% of revenues
Local Development	10% of Revenues	2.5% of revenues	1% of revenues
Total		16% of revenues	6.5% of revenues

5) Reserve Fund Contribution Waterfall

At the end of each fiscal year, contributions to the reserve funds shall be subject to a ‘waterfall’ where surplus revenues shall be allocated to reserves funds as follows:

Surplus revenues shall be allocated to up to the minimum reserve contribution in order of the General Operating/Credit Reserve, the Rate Credit Reserve, the Collateral Reserve and the Local Development Reserve. After this first round of contributions has been made, residual surplus revenues shall be allocated up to the maximum reserve contribution in the same order as above.

6) Additional Contributions to Reserve Funds

The funding of these reserve funds shall be subject to the minimum thresholds outlined in descriptions of each of the reserve funds, but contributions above these levels can be made at the discretion of the Board of Directors.

Conclusion

EBCE should have an Operating Credit Reserve for the purpose of supporting agency credit, a Rate Stabilization Reserve to help ensure that EBCE can maintain rate parity with PG&E, a Collateral Reserve to allow the posting of collateral for energy and related purchases, and a Local Development Reserve that allows multi-year local program funding commitments.

Attachments

- A. Resolution Approving Reserve Policy
- B. Reserve Policy

RESOLUTION NO. ____

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE EAST BAY COMMUNITY ENERGY AUTHORITY ADOPTING
A FINANCIAL RESERVE POLICY**

THE BOARD OF DIRECTORS OF THE EAST BAY COMMUNITY ENERGY AUTHORITY DOES HEREBY FIND, RESOLVE AND ORDER AS FOLLOWS:

Section 1. The East Bay Community Energy Authority (“EBCE”) was formed on December 1, 2016, under the Joint Exercise of Power Act, California Government Code sections 6500 *et seq.*, among the County of Alameda, and the Cities of Albany, Berkeley, Dublin, Emeryville, Fremont, Hayward, Livermore, Piedmont, Oakland, San Leandro, and Union City to study, promote, develop, conduct, operate, and manage energy and energy-related climate change programs in all of the member jurisdictions.

Section 2. On January 17, 2018, at a regularly scheduled meeting, the Board of Directors adopted a Risk Management Policy. This policy stated that certain risks could be managed by maintaining sufficient financial reserves.

Section 3. The Board of Directors hereby finds and declares that it is in EBCE’s best interest to allocate sufficient funds to maintain an operating/credit reserve with a target balance of six months of operating expenses to be kept in unrestricted cash and short-term investments. Funds shall be collected and maintained consistent with the attached EBCE Financial Reserve Policy.

Section 4. The Board of Directors hereby finds and declares that it is in EBCE’s best interest to allocate sufficient funds to maintain a rate stabilization reserve with a target balance of 1.5% in annual operating revenues kept in short-term investments. Funds for the rate stabilization reserve shall be collected and maintained consistent with the attached EBCE Financial Reserve Policy.

Section 5. The Board of Directors hereby finds and declares that it is in EBCE’s best interest to allocate sufficient funds to maintain a collateral reserve with the target of 10% of annual energy-related expenses set aside in cash and short-term investments for use as collateral in energy purchases. This collateral reserve shall be collected and maintained consistent with the attached EBCE Financial Reserve Policy.

Section 6. The Board of Directors hereby finds and declares it is in EBCE’s best interest to allocate sufficient funds to maintain a local developments reserve with the target of 10% of annual revenues set aside in cash and short-term investments for use as collateral in local energy purchases and support local development programs wherein EBCE can leverage the financial reserve funds to stimulate more local resources. This local development reserve shall be collected and maintained consistent with the attached East Bay community Financial Reserve Policy.

Section 7. Surplus revenues shall be allocated up to the minimum reserve contribution in each of the reserve categories in the following order: general operating/credit reserve, the rate stabilization reserve, the collateral reserve and the local developments reserve. After the first round of minimum contributions has been made, residual surplus revenues shall be allocated up to the maximum reserve contribution in the same order.

Section 8. The funding of these reserve funds shall be subject to the minimum thresholds outlined in descriptions of each of the reserve funds, but contributions above these levels can be made at the discretion of the Board of Directors.

Section 9. The Board of Directors hereby adopts policy number P-2018-5 attached hereto as Exhibit A.

Section 10. This resolution shall take effect immediately.

ADOPTED AND APPROVED this 20TH day of June, 2018.

Scott Haggerty, Chair

ATTEST:

Stephanie Cabrera, Clerk of the Board

EAST BAY COMMUNITY ENERGY
FINANCIAL RESERVES POLICY

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- c. If rates cannot be kept competitive per definition 1b), then EBCE will reduce its contribution to the general operating/credit reserve so that EBCE's average retail rate is equal to PG&E's average retail rate. Under no circumstance, however, will the amount planned to provide for the operating/credit reserves be less than 5% of total annual forecasted revenue.
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 - e. Collateral Reserve may be eliminated once EBCE has secured a credit rating.
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