



## **POLICY #18-10**

### **Financial Reserve Policy**

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**Subject:** Guidelines for DCE reserve fund accumulation and utilization with respect to actual and projected operating surpluses subject to annual review and adjustment by the Board of Directors.

#### **Reserve Policy:**

Establishing operating reserves that build over time is a critical component of enterprise risk management, prudent fiscal management, contingency planning and implementation and funding of long-term program goals. Additionally, DCE's Resource Management Agreement with its procurement agent, The Energy Authority (TEA), requires a portion of DCE's reserves to be held in a restricted reserve account during the period of time that TEA is providing a credit solution supporting DCE's power supply procurement. The amount DCE is obligated to fund in the restricted reserve account is described in DCE's Resource Management Agreement with TEA. DCE may request a call on funds held in the restricted account; however, TEA has sole discretion to deny or to accept such a request and may add specific conditions to any such use of funds.

This reserve policy is intended to align with requirements set forth by DCE's procurement agent, The Energy Authority, and is subject to annual review and adjustment coincident with DCE's fiscal year budget approval process.

During the period of time that TEA is providing a credit solution to DCE, DCE shall maintain both restricted and unrestricted reserve accounts with funding of the restricted account taking priority until it is fully funded. Once TEA is no longer providing a credit solution, DCE will transfer all funds in the restricted reserve account to the unrestricted account.

For both accounts reserve balances are established generally from excess revenues over expenditures, unrestricted one-time revenue occurrences, and other available funds as may be deemed appropriate and proper by the DCE Board to augment DCE reserve accumulation. Such reserve balances may include the currently designated threshold of 0.300% of total revenues to be set aside for bad debt (see related policy) subject to approval by the Board. This policy may be reviewed and modified at the Board's discretion from time to time in consultation, as applicable, with DCE's Executive Director, service providers, procurement agents, and banking/financial advisors.

#### **Reserve Target Levels:**

This policy establishes an initial operating reserve accumulation target equal to 30% (120 days operating capital) to 40% (150 days operating capital) of the most current Board approved DCE operating budget, including power supply, within the first 3 years of operations. The target

reserve accumulation will increase to 50% (180 days operating capital) of the most current Board approved DCE operating budget by the end of DCE's 6th year of operation. Contributions to achieve these targets are subject to actual revenue and cash flow streams, prevailing conditions of business necessity, then existing financial obligations, and other relevant factors as may be determined by the Board. The targeted maximum reserve balance is 75% (270 days operating capital) of the most current Board approved DCE operating budget.

#### **Use of Reserves:**

Use of reserves shall be recommended by DCE's Executive Director and is subject to approval by the Board of Directors. Any recommendation for use of reserves shall include a proposal for the replenishment of such reserves within two fiscal years, or other time period as approved by the Board. Primary reserve fund uses include but are not limited to:

- 1) Meeting mandated regulatory and or operating depository requirements when other sources of funds are not available;
- 2) Credit support for power purchase arrangements;
- 3) Meeting financial obligations during periods of business necessity;
- 4) Rate stabilization to mitigate power price shocks, market volatility or regulatory changes;
- 5) Temporary operating financial resources in the event of an economic downturn or other emergency situations preceding expense reductions, rate adjustments, and/or other corrective actions;
- 6) Covering temporary operating shortfalls instead of incurring new debt;
- 7) Local power programs/projects requiring credit backing or short-term infusion of capital;
- 8) Other uses as deemed necessary and prudent by the DCE Board.

If reserve funds exceed target levels, the Board of Directors may use excess funds for capital improvements, financing programs, paying down existing debt, rate reductions and/or other strategic purposes.

#### **Reporting**

Reserve levels will be monitored during each fiscal year and reported no less frequently than quarterly in financial reports provided to the Board.