



POLICY No. 18-10 - Amended

Financial Reserve Policy

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.

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. Such reserve balances are established as an unrestricted fund sourced 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. 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 (or designee), service providers, procurement agents, credit rating agencies, and banking/financial advisors.

Basic Reserve Target Levels:

This policy establishes an operating reserve accumulation minimum target equal to 50% (180 days operating capital)¹ of the most current Board approved DCE total power and operating costs 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, 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.

Temporary reductions in reserves for cash flow management, aimed at balancing expected fluctuations in revenues and expenses, are normal cyclical occurrences within the fiscal year and do not constitute a use of reserves.

Use of Basic Reserves:

If Basic Reserves exceed and sustain above the minimum target level, use of those reserves may be made subject to approval by the Board of Directors. Use shall encompass strategic

¹ Days operating capital calculated as (Unrestricted cash and cash equivalents x 365) / budgeted fiscal year operating expenses. Use of last twelve months for operating expenses in lieu of budgeted is also allowable.

purposes such as funding capital projects or improvements, financing programs, paying down existing debt, rate setting enhancements, and/or other strategic uses as deemed necessary and prudent by the DCE Board. Use of Basic Reserves not subject to the minimum target level may encompass transfer to or creation of a separate Special Reserve designated for specific purposes. Any recommendation for use of Basic Reserves outside the creation of a Special Reserve shall include a cost-benefit analysis or a proposal for the replenishment of such funds within a time period as approved by the Board.

Special Reserves:

Creation of a Special Reserve may be necessary to meet operational requirements or strategic objectives with specific purposes. The target reserve amounts for a Special Reserve shall be identified at its creation and this policy then updated, as applicable. Special Reserves are treated independently from the Basic Reserve and are not aggregated. The use of Special Reserves shall be approved by the Board of Directors in line with its intended purpose.

Fixed Charge Coverage (FCC)² Reserve Establish a FCC Reserve to ensure that rate-setting allows for flexibility in cost recovery. The major rating agencies place significant weight on DCE's ability to meet fixed obligations on an ongoing basis and look extremely favorably at an annual FCC above 1.6x. If DCE's FCC were to drop below certain levels, this may result in a less favorable credit rating which could then impact DCE's operations. Upon Board approval, these funds may be transferred to other Special Reserves or to the Basic Reserve.

Stabilization Reserve Establish a Stabilization Reserve to mitigate unexpected financial risks which may arise due to market volatility, regulatory changes, unforeseen geopolitical events, catastrophe, power price or rate shocks, and other types of adverse and unplannable events such as economic downturn to meet financial obligations during periods of business necessity.

Procurement Reserve Establish a Procurement Reserve to meet mandated regulatory and/or operating requirements for the procurement of energy products such as resource adequacy, carbon free products, and renewables as well as for meeting mandated regulatory and/or operating depository requirements when other sources of funds are not available; Credit support for power purchase arrangements and other such type uses supportive of long-term energy procurement in line with DCE's objectives and California's strict Renewable Portfolio Standards.

Customer and Programmatic Reserve Establish a contingency reserve for customer programs and incentives as well as for other community projects such as local power programs/projects requiring credit backing or short-term infusion of capital.

Reporting

Reserve levels will be monitored during each fiscal year and included as part of the annual budget process and reported no less frequently than quarterly in financial reports provided to the Board.

Amended June 2023, December 2024

² FCC is calculated as Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy).