



Staff Report Item 4

TO: East Bay Community Energy Board of Directors

FROM: Howard Chang, Chief Operating Officer

SUBJECT: East Bay Community Energy Reserve Policy

DATE: May 18, 2018

Recommendation

Discuss a reserve policy for EBCE providing for four separate funds including 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.

Discussion

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 Stabilization 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 operating/credit 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.

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 a financial reserve to access more local resources.
- b) Provided rates can be kept competitive with PG&E, EBCE will make an annual contribution to the Local Development reserve 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 operating/credit 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
Collateral	10% of Energy Expense	2.5% of revenues	0.5% of revenues
Local Development	10% of Revenues	2.5% of revenues	1% of revenues
Total		19% of revenues	6.5% of revenues

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.