



Staff Report Item 14

To:	Ava Community Energy Authority
From:	Russell Mills, SVP and CFO
Subject:	Informational Report on Rate Stabilization Funds
Date:	July 16, 2025

Summary

Staff will be providing information on Rate Stabilization Funds (“RSF”) with the Ava Board of Directors to highlight how utilities use these policies and funds. The information will review Ava’s existing Governmental Accounting Standards Board (“GASB”) 62 Rate Stabilization Policy and current fund balances to begin considering uses for the budget surplus realized at year end for Fiscal Year 2024-2025. Staff anticipates bringing recommendations for policy enhancements and surplus allocations later this fall after the financial audit confirms available balances.

Background and Discussion

Ava established a GASB 62 Rate Stabilization Fund in 2020, authorized by Resolution R-2020-26. The purpose of this fund is to defer revenues through budget surplus allocations, primarily to allow matching the timing for on-bill credits, the solar & storage incentive program, and a one-time allocation towards long-term renewable energy & clean energy storage investments.

GASB accounting rules allow public entities to defer revenues from one period for use in subsequent periods, by lowering revenues when deferred, and raising revenues when utilized to assist with stabilizing budgeted financial results and rates for customers.

Staff researched other utilities and public entities for the existence and use of rate stabilization funds and the policies that govern their use.

Survey of Comparable Best Practices

In considering how to utilize the budget surplus, staff has completed a broad survey of the reserve policies for 22 public agencies to determine comparable best practices for utilizing rate stabilization funds. These agencies were selected by surveying the same group used for the reserve fund policy. The complete list of agencies surveyed is presented here:

- AC Transit—Regional Operator
- Alameda Municipal Power—Non CCA Public Power
- Ava Community Energy--CCA
- Central Coast Community Energy--CCA
- City of Burbank Water & Power—Non CCA Public Power
- Clean Energy Alliance--CCA
- Clean Power Alliance--CCA
- Clean Power SF--CCA
- Desert Community Energy--CCA
- East Bay Municipal Utility District—Regional Operator
- Los Angeles Department of Water and Power—Non CCA Public Power
- MCE--CCA
- Orange County Power Authority--CCA
- Peninsula Clean Energy--CCA
- Pico Rivera Innovative Municipal Energy—Non CCA Public Power
- Pioneer Community Energy--CCA
- Redwood Coast Energy Authority--CCA
- Sacramento Municipal Utility District—Non CCA Public Power
- San Diego Community Power--CCA
- Silicon Valley Clean Energy--CCA
- Sonoma Clean Power--CCA
- Valley Clean Energy--CCA

Following are the statistics of respondents related to the usage of an RSF:

- 6 Respondents (27%) had a separately outlined Rate Stabilization Fund Policy
 - 4 respondents set RSF levels as a percent of Operating and Maintenance (“O&M”) costs
 - The average percent of O&M costs was 15%
 - 2 respondents set RSF levels as a percent of expected gross revenues
 - Both respondents use 20% of gross revenues

- 9 Respondents (41%) expressly allow the Operating Reserves to be utilized for rate stability, but did not have a distinctly separate fund or policy
- 15 Respondents (68%) generally referenced reserves as a tool for rate stability

Every respondent that mentioned using reserves for rate stability had the same withdrawal restrictions as their operating reserve fund policy: 8 agencies give their Chief Executive Officer (“CEO”) or General Manager discretion for utilization of reserves, 4 require board approval, and 3 do not specify. 1 respondent specifically granted the CEO unlimited use of reserves to maintain the rate threshold to PG&E, as long as days cash on hand did not fall below 90 days.

Staff is evaluating the current RSF Policy to formulate a recommendation for any changes. The recommendation will consider refining any specifics within the existing policy on target funding levels, purposes and authority if needed. The existing policy does not have target funding levels at this time.

Financial Strength

Ava’s rate stabilization fund has defined uses and is an integral part of the financial strength that allows us to operate successfully within energy markets. Many external partners such as Ratings Agencies, credit providers and counterparties rely on Ava’s ability to perform and assess our creditworthiness and overall financial viability. Part of that assessment includes our liquidity and financial resources to continue to operate through turbulent markets, regulatory changes, and unforeseen events. Ava has structured its resources such that our planned uses would follow in a waterfall order of priority.

Our current waterfall of financial resources that support our financial strength is as follows:

Waterfall of Liquidity Resources

1. Working Capital
2. Rate Stabilization Fund
3. Credit Facility
4. Reserve Fund

As a critical part of Ava’s financial resources, having the ability to maintain stable rates in response to cyclical and short-term market volatility, or effects from other rate setting

proceedings such as the Power Charge Indifference Adjustment (“PCIA”), is prudent. It is anticipated that funds may be utilized 1-2 times each decade, and potentially necessary in the near term. Considering the policy and any potential changes needed at this time will help Ava manage future actions that solidify our ability to provide a value proposition and maintain strong “A” ratings.

Fiscal year 2024-25 is forecast to end strongly with an approximate \$100 million surplus. At this time, staff is providing an informational update on this and seeking feedback on potential changes to the budget surplus allocation and rate stabilization fund policy. Staff anticipates providing a recommendation in the September or October timeframe for how to allocate the surplus and will include recommended modifications to the current RSF policy.

Financial Impact

Not applicable

Committee Recommendation

Not applicable.

Attachments

- A. Rate Stabilization Fund Informational Presentation



Rate Stabilization Fund Informational Review

Rusty Mills | July 16, 2025



Background and History of Ava's Rate Stabilization Policy

On September 16, 2020, the Board of Directors (BOD) approved by resolution (R-2020-26) creating a budget stabilizing fund to allow Ava to defer and allocate surplus revenues during strong financial performance periods for future utilization during more challenging periods

- The Board approved establishing, allocating funds and maintaining a GASB 62 Rate Stabilization Fund (RSF) to provide a contingency available to satisfy financial covenants, stabilize customer rates, fulfill local development, among other uses
 - Note that subsequent to creating the Rate Stabilization Fund, Ava created a separate fund to maintain local development funding that is not a revenue deferral fund, only a cash fund similar to reserve funding
- This fund has primarily been maintained to allow matching of timing for on-bill credits, the solar & storage incentive program, a one-time allocation towards long-term renewable energy & clean energy storage investments, and volatility in PCIA

What is GASB 62 and How Do They Operate?

Government Accounting Standards Board Ruling 62 (GASB 62): codifies and standardizes “the presentation of deferred outflows of resources and deferred inflows of resources and their effects on net position.”

- This allows for deferring the accrual of surplus revenues from a prosperous period to be realized in future time periods
- Any deferred revenues will reduce net position by an equal amount in the period deferred, and increase net position by an equal amount in the period
- This is an accounting treatment different than reserve funds, as reserve funds are withheld cash amounts from already accrued and realized revenues

When to Utilize: Utilities and CCAs typically utilize funds for specific programmatic purposes and/or to maintain stable rates in response to cyclical and short-term market volatility or other events impacting rate setting, anticipated 1-2 times each decade.

Benefits & Utilization of Ava's Rate Stabilization Fund

- Stabilizes Ava's rates charged to customers, helping preserve the value proposition
- Fosters strong financial covenant agreements with counter parties
- The RSF is an integral part of Ava's waterfall of liquidity resources that maintain our ability to operate and supports our financial strength and "A" ratings

The waterfall consists of four distinct levels for utilization:

1. **Working Capital – Ongoing Operational Cash Flow**
2. **Rate Stabilization Fund – Smooth out cash flows during challenging budget cycles**
3. **Credit Facility** – Post LOCs to operate and only draw if necessary (when RSF depleted)**
4. **Reserve Funds – Financial strength base layer set aside as a "Disaster/Earthquake" fund**

**Credit Facility may have Capital Projects uses in Future; Staff would maintain partial capacity to use for cash flow support

Ava Rate Stabilization Fund Utilization

- The GASB 62 Rate Stabilization Fund was established by Resolution R-2020-26
- Current balance is approximately \$57.6MM with ~\$32.1MM retained specifically for rate stabilization
- Based on the strong forecasted surplus for 2024-25 of >\$107MM, staff will propose a recommendation to allocate all or a portion to the Rate Stabilization Fund in September/October timeframe
- If we allocate the current year's full surplus, this would total \$139MM for rate stabilization
 - The Rate Stabilization Fund is intended to be used to balance surplus and deficit year reflecting over and under-collection year to year

FY	Contribution	Recognition	Balance	Purpose
2020	12,680,000	-	12,680,000	Stabilize Local Development balance until Fund is established by Reso R2020-26
2021	15,814,000	12,680,000	15,814,000	Recognized LD balance with fund establishment via Budget. Contributed to PCIA PUBA balance through December 2023 as allocated by Audit
2022	-	-	15,814,000	
2023	37,200,000	-	53,014,000	~\$10.5MM each for on-bill credits and PPA premium plus \$16.2MM for rate stabilization as allocated by audit and Resolution R-2023-37
2024	-	10,504,837	42,509,163	Recognition is for on-bill credits, by Resolution R-2023-58
2025	37,407,824	22,316,492	57,600,495	Contribution for on-bill credits and NBT from surplus revenue as allocated by audit and Resolution R-2024-2. Recognition is net on-bill credits by Resolution R-2024-73.
2026	3,194,472	35,327,000	25,467,967	Bold is potential contribution from FY 2024-25 for recognition in FY 2025-26
2027	-	10,504,837	14,963,130	Recognition is for PPA premium contribution from 2023, by Resolutions R-2023-58 and R-2024-26
2027	-	14,963,130	-	Possible recognition of NBT incentives contributed in FY 2025

Survey of Comparable RSF Best Practices

In considering the adequacy of Ava's rate stabilization policy and funding, staff has completed a broad survey of 22 public agencies to discover comparable best practices for RSF policy and management

The goals of the survey were as follows:

- Discover how many companies have an RSF and how it integrates with reserve policies
- Compare RSF fund sizes and triggers for utilization
- Discover best practices for RSF utilization discretion

Agencies Surveyed

- AC Transit
- Alameda Municipal Power
- Ava Community Energy
- Central Coast Community Energy
- City of Burbank Water & Power
- Clean Energy Alliance
- Clean Power Alliance
- Clean Power SF
- Desert Community Energy
- EBMUD
- LADWP
- MCE
- Orange County Power Authority
- Peninsula Clean Energy
- Pico Rivera IME
- Pioneer Community Energy
- Redwood Coast Energy Authority
- SMUD
- San Diego Community Power
- Silicon Valley Clean Energy
- Sonoma Clean Power
- Valley Clean Energy

Results of Survey of Comparable Best Practices

Statistics of Respondents:

- **6 Respondents (27%) had a separately outlined Rate Stabilization Fund Policy**
 - **4 respondents set RSF levels as a percent of Operating and Maintenance (O&M) costs**
 - **The average percent of O&M costs was 15%**
 - **2 respondents set RSF levels as a percent of expected gross revenues**
 - **Both respondents use 20% of gross revenues**
- **9 Respondents(41%) had mentions in the Operating Reserves for rate stability, but did not have a distinctly separate fund or policy or Rate Stabilization**
- **15 Respondents (68%) talked about using reserves as a tool for rate stability**
- **Every respondent that mentioned using reserves for rate stability had the same withdrawal restrictions as their operating reserve fund policy:**
 - **8 agencies (39%) allow CEO discretion for utilization of reserves, 4 require board approval, and 3 do not specify.**
- **1 respondent specifically granted the CEO unlimited use of reserves to maintain the rate threshold to PG&E, as long as days cash on hand did not fall below 90 days.**

Conclusion & Next Steps

- Ava's Rate Stabilization Fund and Policy is in line with industry norms for similar agency operations
- Rate Stabilization Funds play a vital role in rate stability and are an integral part of a financially strong CCA/Utility balance sheet
 - Separate from Reserves higher in Financial Resource Waterfall
- The fiscal 2024-2025 Budget Surplus may be necessary to maintain financial metrics and customer Value proposition over the next couple of years
- Staff will bring forward a recommendation Rate Stabilization Fund allocation and any edits to the existing policy for consideration in the September/October timeframe

Potential Uses for the FY 24-25 Budget Surplus

Ava Forecasts to end the year with an approximate \$100 million budget surplus.

- Later this fall staff will recommend how we will allocate the surplus and propose any modifications to the policy

Potential Modification of the RSF Policy

- Policy currently doesn't have funding levels; staff may propose a funding level target and range
 - As an example, 10 to 30% of costs or revenues with a 15-20% target
 - Consistent with best practices
 - Should be complementary to other levels in financial resource waterfall (working capital, line of credit and reserves)

Scenario	Contribution*	Balance
Budget Waterfall As Approved		
Reserves	73,257,000	404,130,400
Solar & Storage Incentives	10,000,000	24,963,130
Customer Credits	19,258,000	19,258,000
Rate Stabilization Fund	-	32,132,528
100% Allocation to RSF		
Reserves	-	330,873,400
Rate Stabilization Fund	102,515,000	134,647,528
80% RSF/ 20% Reserves		
Reserves	20,503,000	20,503,000
Rate Stabilization Fund	82,012,000	114,144,528

* Contributions to Reserves and RSF is based on 4/30/2025 actuals

Questions & Discussion