Ava's Working Capital

Finance, Administrative, and Procurement Subcommittee

September 9, 2026

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- Planning implications and defining Ava target minimum balances

What do we mean by "Working Capital"?

- Working capital is the money Ava has free to run daily operations and can be measured in two different ways
  - GAAP measures working capital as short-term assets – short-term liabilities from the Balance Sheet financial statement
    - Good for corporations but doesn't translate well to public enterprises
    - May not capture true cash available for operations, such as deferred revenues for RSF and special funds such as Local Development
  - Working capital can also be measured by operational cycles—**cash conversion cycle**
    - Usually tracked by counting days of liquidity instead of dollars
    - Measures time from when costs are incurred to when revenues are collected
    - Better for balance tracking and public enterprises
- Sound working capital management practices prevents liquidity crises and ensures smooth business operations
- Especially important in industries with significant swings in demand or long receivable cycles, such as those associated with cost recovery through the PCIA

GAAP	March 31, 2026
Current Assets	628,156,213
Current Liabilities	136,343,045
Working Capital	**491,813,168**
Cash in Accounts	**855,051,116**
GAAP does not include LT investments or deferred revenues	363,237,948

Ava's Cash Buckets

Total cash balances are allocated to different buckets for treasury management

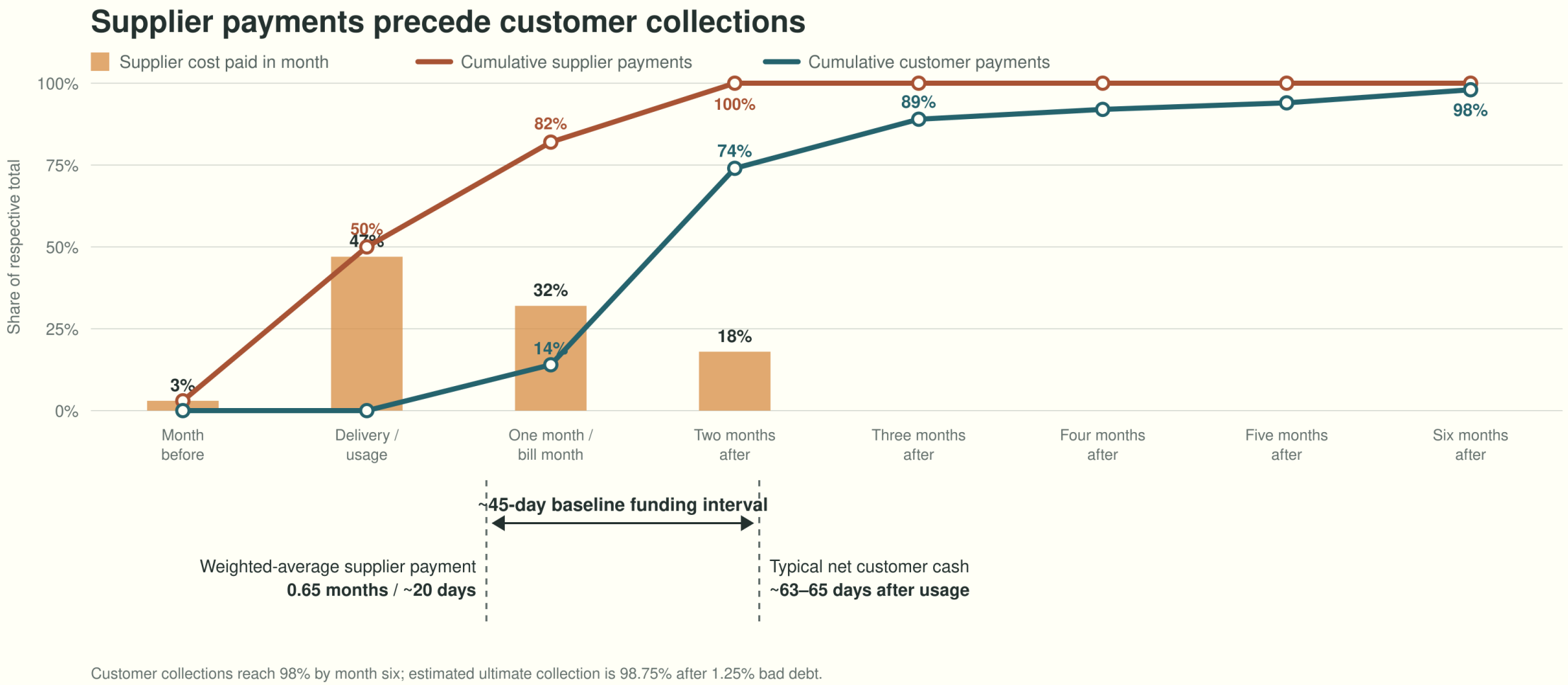
- **Reserve Funds**—Held in a custodial account at US Bank and invested in accordance to Ava's Investment Policy as approved by the Board by resolution R-2024-31 in April, 2024
- **Rate Stabilization Fund**—Held in insured cash sweep (ICS) accounts and certificate of deposits and was established by the Board by resolution R-2025-41 in September, 2025
- **Local Development Fund Balance**—Held in interest bearing money market and operating accounts and tracked since inception
- **GASB 62 Deferred Revenue Items**—Held in interest bearing money market account and holds cash appropriated for local renewable energy expenses in 2027 per resolution R-2024-26 and solar/storage incentives per resolution R-2024-42
- **Cash Collateral & Other Restricted Funds**—Held in interest bearing money market account for cash postings from counterparties
- **Available Working Capital**—Held in operating accounts

Note: Ava's Credit Facility with PNC bank grants an additional liquidity resource but is not listed as cash available working capital

Major Factors Affecting Ava Working Capital Planning

- Revenue collection cycle
- PCIA variability
- Commodity Market Volatility
- Cyclical economic activity
- Interest rate markets
- Global conflict and other unplanned events

Ava's Cash Conversion Cycle



Customer collections reach 98% by month six; estimated ultimate collection is 98.75% after 1.25% bad debt.

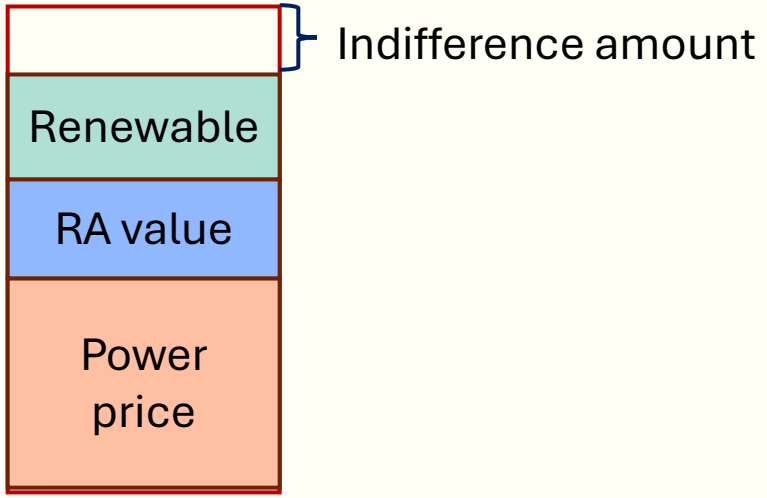
Supplier payments average ~ 20 days after delivery, while net customer cash typically reaches Ava around 65 days after usage. This creates ~45-day baseline funding interval

Impact of PCIA on Working Capital

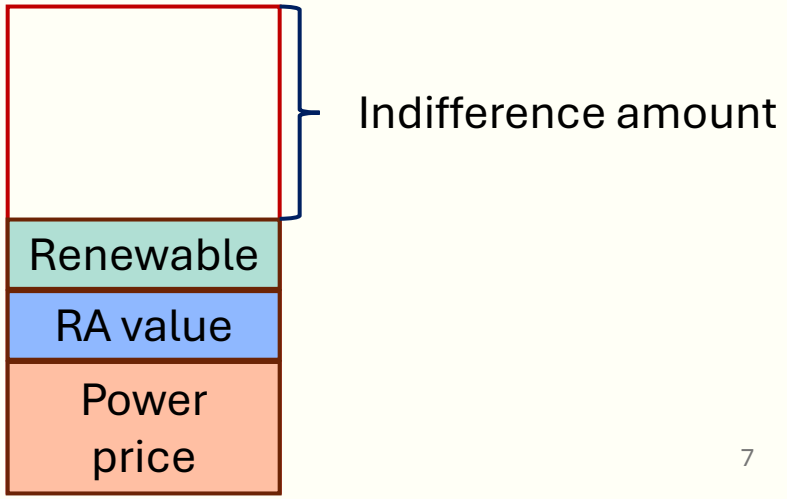
What is PCIA and how Ava factors it in to hedging decisions?

- The short story: PG&E legacy energy resources are the basis for the PCIA calculation. Functionally, PG&E resources serve as an energy hedge for Ava's customers.
- PCIA is based on a calculation of the indifference amount for Cost Responsibility Surcharge (CRS) resources
- Total cost of the CRS resource portfolio minus the market value of portfolio output
- **Market value is determined by brown power price, renewable adder, and RA values (system, local, and flex)**
- Because the indifference will vary with changes in the market price, the PCIA acts as a hedge for Ava's energy purchases
- When energy prices increase, cost of energy supply increases, as does value of CRS portfolio output
- Thus, high energy prices in one year will lead to a lower PCIA charge in the following year due to the Portfolio Allocation Balancing Account (PABA) true-up

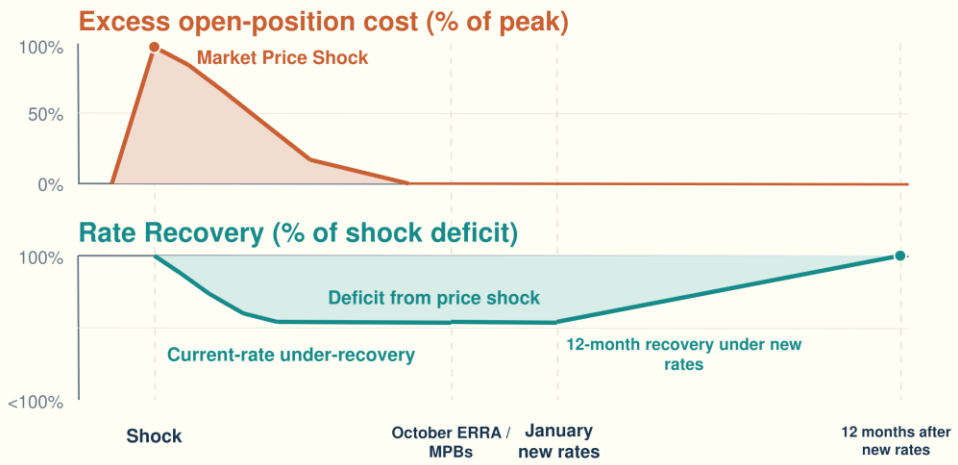
PCIA in High Cost Environment

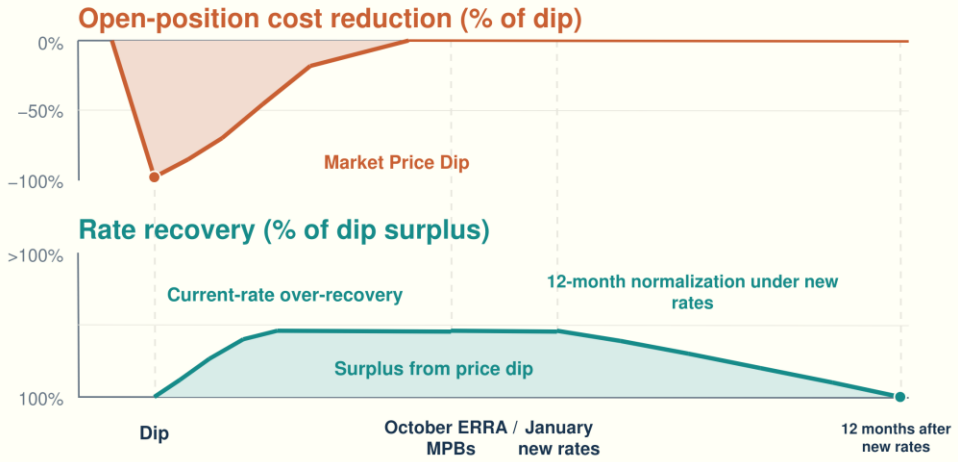


PCIA in Low Cost Environment



PCIA as an Equalizing Mechanism





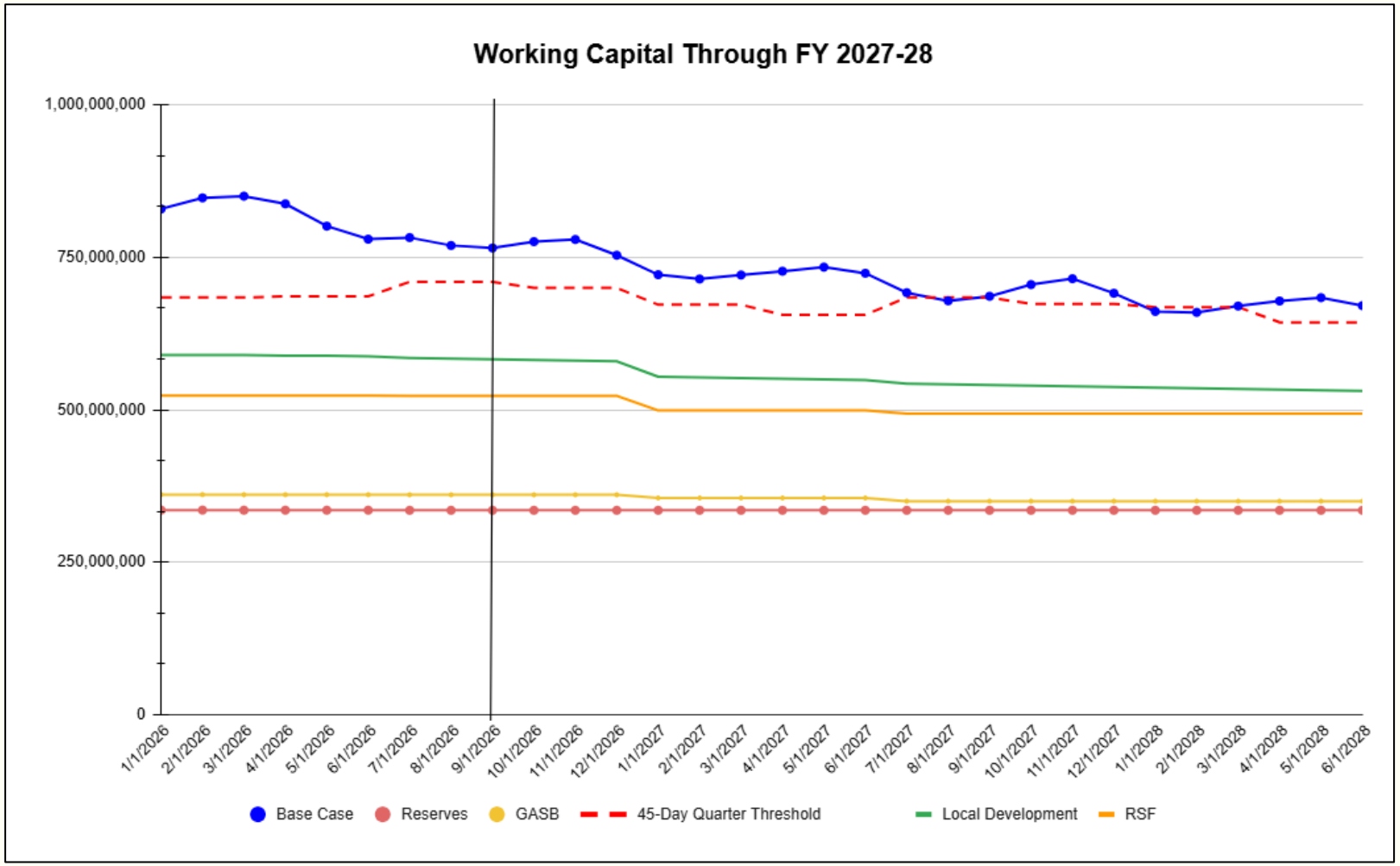
- Changes in market prices are eventually balanced through PCIA and rate setting processes
- A price shock or dip creates an immediate cash gap and two-stages for recovery

- In the event of a price spike,
  - Ava's current rates collect a portion of the cost incurred in the short term
  - Next year's rates are higher and recover the remaining shortfall over 12 months

- In the event of a price dip.
  - Ava's current rates over collect revenues in the short term
  - Next year's rates are lower and surplus is returned to the customer over 12 months

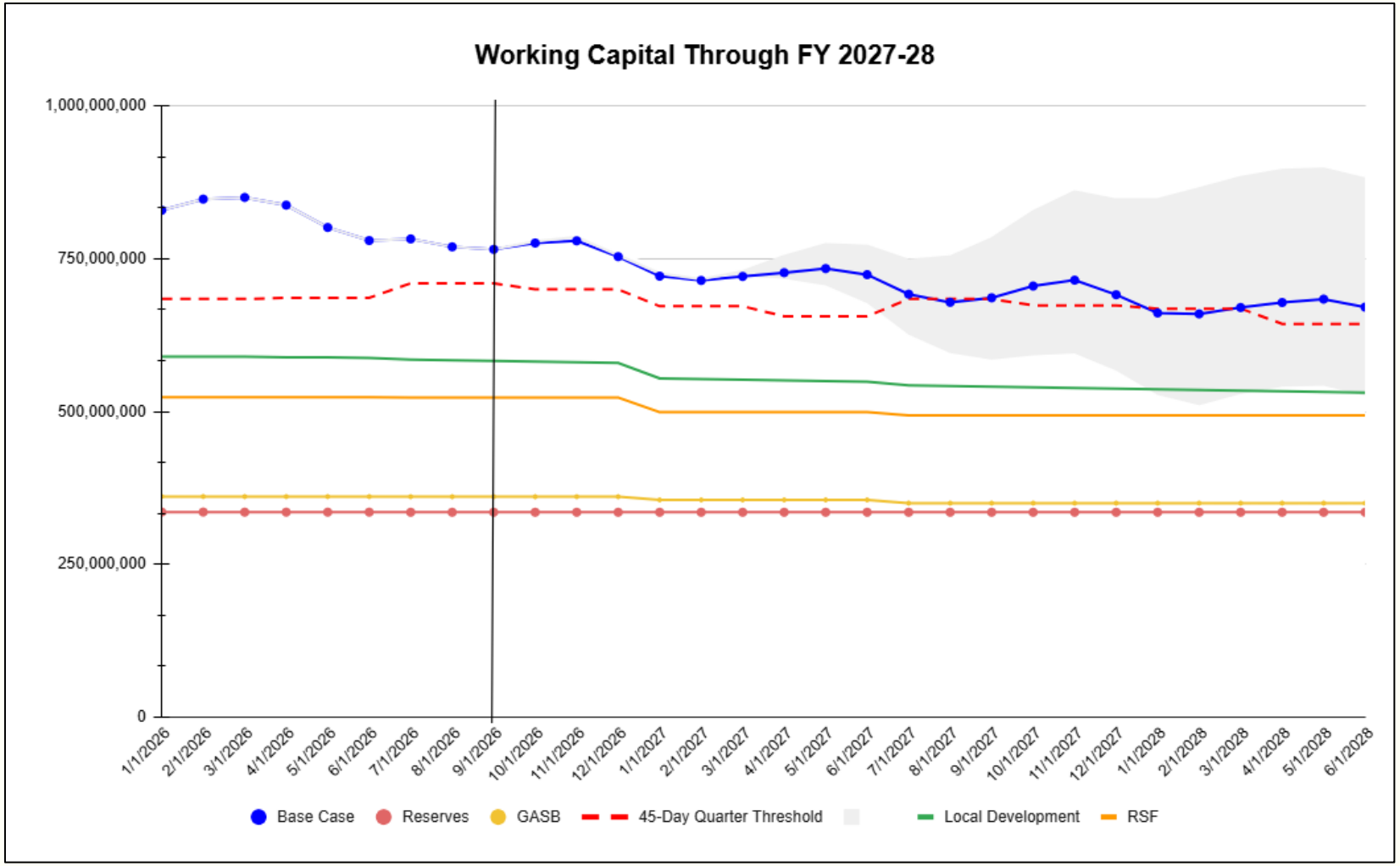
- This creates a 15-24 month long-term cycle for cash balancing (up to 9 months from market shock to ERRA, 3 months from ERRA to rates, 12 months for rates to balance)

Base Case Working Capital Projections



- Revenues align with current MPB and rate expectations
- No new PCIA reform included
- Energy costs occur at expected market prices (no price shocks)
- Recognition of $10.5MM of GASB set-aside for local renewable generation in 2027 per R-2024-26
- Recognition of $18.9MM of RSF in Jan 2027 as approved by Budget
- Narrow margins in Q3 CY 2027 and Q1 CY 2028
- Forecasted drawdown is $180MM from highest balance (3/26) to lowest balance (2/28)

Range of Working Capital Projections



- Revenues are stressed under two scenarios
  - **Bottom Case**: September prices dip then spike in October and run high through CY 2027
  - **Upper Case**: September prices spike then remain elevated through CY 2027
- No new PCIA reform included
- GASB and RSF recognitions same as base case
- Potential breach of balances in Feb 2028

Minimum Working Capital Levels – Planning

- Ava manages to a minimum of 45 days of Working Capital
  - Translates to approx. $110 million on average
  - Gap in Cash Conversion Cycle approximately aligns
  - Balance at 45 days would trigger decision on using other available funds (i.e. RSF)
- **If RSF balances are available, Ava may begin utilizing those funds in periods of cash burn without affecting rates or placing stress on liquidity levels**
- PNC credit facility requires 120 days of Days Liquidity on Hand (DLOH),
  - This measure excludes invested amounts
  - This measure includes the facility itself and does not preclude RSF and other cash balances from applying to the calculation
  - The base case does not dip below 249 DLOH in the timeframe presented
- S&P uses Total Liquidity on Hand (TLOH) which includes all cash balances and credit facility balance
  - The base case does not dip below 377 TLOH in the timeframe presented
- **Working Capital minimum gives staff and the Board adequate time to adjust revenues by considering Board action**

Questions & Next Steps

- Questions??
- Staff continues to update forecasted cash flows at least monthly as part of active liquidity management
- Working Capital forecasts may inform staff recommendations for board action to maintain balance sheet strength