

**VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE**

Staff Report Item - 7

TO: VCEA Community Advisory Committee
FROM: Mitch Sears, Interim General Manager
SUBJECT: Operating Reserve Policy
DATE: December 4, 2017

Recommendation

Support staff recommendation that the VCEA Board adopt the draft Operating Reserve policy.

Background

The purpose of an operating reserve are to: (1) provide cash for volatility in payables and receivables and (2) to signal fiscal discipline to financial counterparties. A rate stabilization fund mitigates risks from changes to PG&E rates and exit fees, and provides collateral for long-term contracts.

The proposed minimum balance for the operating reserve is 30 days operating expenses or approximately \$3.6 million dollars. The target balance is 90 days operating expense, or approximately \$11 million dollars. The rate stabilization fund is typically a percentage of revenue or power costs. This can be defined at a later date.

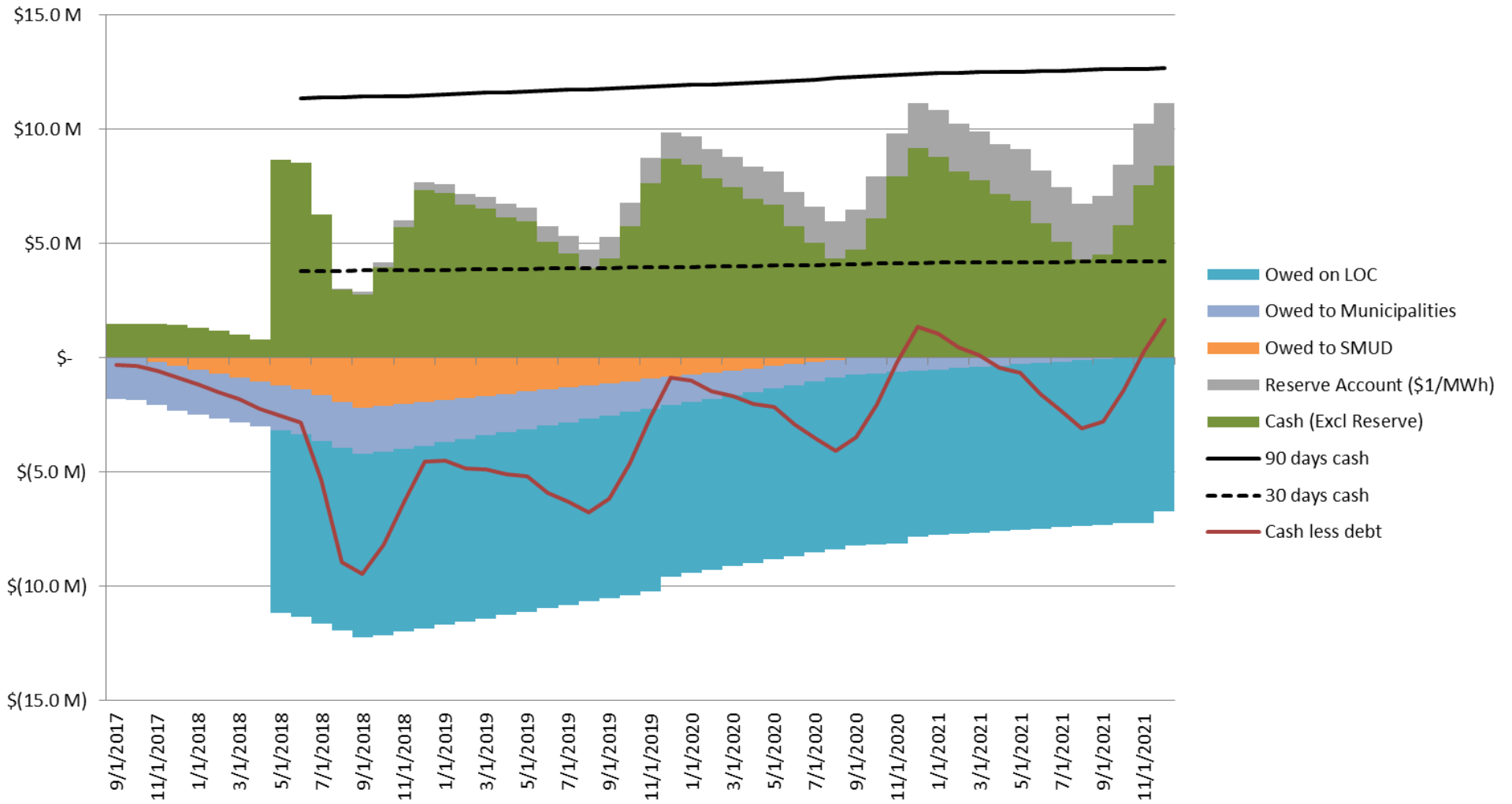
SMUD staff have prepared forecast projections of cash and debt (Attachment A). Based on this forecast, staff recommends that VCEA begin by taking the following steps:

1. Fund the operating reserve to 30 days
2. Next, concurrently
 - Pay off start-up financing
 - Fund operating reserve to 90 days

Moving forward, the annual amount of reserve contributions can be determined based upon power market prices, and should make consistent progress towards the target balance of 90-days operating expense.

The draft Operating Reserve policy reflects this course of action. (Attachment B)

Projected Cash and Debt



Rate Discount	1.00%
Resource Portfolio	A-Alt
PG&E Scenario	Low 1/1/1
PCIA Scenario	Low 3/3/3/0

DRAFT VCEA Operating Reserve Policy

The VCEA Board recognizes the importance of developing reserves to:

- Ensure financial stability
- Ensure access to credit at competitive rates
- Ensure rate stability

To achieve these objectives, VCEA targets an operating reserve account minimum balance of 30 days operating expenses, with a goal of building to a reserve of 90 days operating expenses.

VCEA will initially build a reserve fund of 30 days operating expenses. Once this is funded, VCEA will begin paying off debt and building cash reserves to meet a 90-day operating reserve level.

Rates, Power Portfolio Resource mix, and Operating Budget will be adjusted as needed to meet VCEA's target reserves schedule.