

## **REDWOOD COAST ENERGY AUTHORITY RESERVE POLICY**

### **1.0 PURPOSE**

RCEA's reserve policy (this "Policy") is established to provide a suitable cash balance to be held to meet target levels of annual operating expenses. This Policy will be maintained as described in the Policy Guidelines to provide for the following objectives:

- Maintain long-term RCEA financial independence and rate stability,
- Meet RCEA strategic objectives,
- Secure favorable commercial terms with vendors and power providers,
- Support RCEA's pursuit of, and maintenance upon receiving, a credit rating,
- Provide a source of funds for unanticipated expenditures, and
- Make cash available for other operational needs as approved by the Board of Directors (the "Board").

The Reserve Policy outlines the appropriate target levels (minimum and maximum) of reserves. Reserves are defined as RCEA's unrestricted cash position. Unrestricted cash is equal to total cash assets less cash held in accounts that are restricted from use due to collateral or by legal contract.

### **2.0 GUIDELINES**

RCEA shall maintain a minimum reserve target equal to 120 days of total operating expenses (including power supply expenses and are reduced for any discrete Board-approved capital-spending allocations or externally funded customer programs), with a goal of increasing the reserve to a maximum target of 180 days total operating expenses.

Funding reserves will come from an excess of Community Choice Energy program revenues over expenditures. The contribution to reserves is determined through RCEA's budgeting and rate setting processes and events impacting revenues and expenditures that occur during the year.

If reserves are projected to be below the minimum target over a 12-month period, RCEA will implement plans, such as increasing rates or reducing expenses, to return the reserves to the maximum target within two fiscal years. Such plans will be provided in subsequent budget and rate discussions with the Board of Directors.

If reserve funds exceed the maximum target over a 12-month period, RCEA will consider reducing rates, issuing dividends, paying down debt, capital improvements and enhancing program expenditures. The use of these funds will be designated by the Board of Directors during the annual budget process.

**3.0 SPENDING AUTHORITY**

Authority to spend from the reserves must align with Board approved budgets and must be approved by the Board.

**4.0 REVIEW OF POLICY**

RCEA staff will review the Reserve Policy annually to ensure it meets the needs of the agency.

**5.0 REPORTING**

Reserve levels will be monitored during the fiscal year and reported in RCEA's annual financial statements.