Subject: Financial Reserves Policy

Purpose: San Diego Community Power (SDCP) will maintain Financial Reserves (Reserves) as described in this policy to:

- Meet SDCP's strategic objectives
- Secure, maintain, and/or improve a standalone investment grade credit rating
- Secure favorable terms with vendors, including power producers
- Satisfy working capital requirements
- Adhere to contractual covenants
- Provide funds to cover unanticipated expenditures
- Support rate stability

Policy Guidelines:

SDCP's financial reserve goal is to secure 180-days of cash on hand.

The contribution to Reserves is determined through SDCP's annual budget process as defined in the agency's Budget Policy and/or SDCP's rate setting process as defined in the agency's Rate Development Policy. To the extent SDCP is able to meet operational expenses and maintain competitive rates, SDCP will establish rates and adopt budgets with the goal of building and maintaining Reserves at or above the 180-days of cash on hand target level.

Definitions

- **Days cash on hand:** unrestricted cash and cash equivalents x 365 / (operating expenses for the current fiscal year)

- **Reserves:** Net position

- **Use of Reserves:** A projected or estimated reduction in the amount of reserves by the end of a fiscal year below the sum of the balance of the reserves at the commencement of the fiscal year plus the projected addition to the Reserves in the budget for the current fiscal year.

Reserve Review: Reserves and annual contributions will be reviewed on an annual basis as part of SDCP's budget process. Reserves will also be reviewed at the completion of SDCP's annual audit to reconcile the Reserve balance.

Reserve Distribution: If reserves exceed the 180-days of cash on hand target level established in this policy, the Board may authorize reserve distributions as follows.

- **Strategic Uses**: Use excess funds for capital projects, financing programs, paying down existing debt, rate reductions, or other strategic purposes.

- **Stabilization Reserve**: Use excess funds to fund a Rate Stabilization Reserve. A Stability Reserve mitigates financial and cost of energy risk due cyclical cost of energy fluctuations and rate shocks and may maintain compliance with financial covenants. The purpose of this reserve would be to provide budgetary stabilization and not to serve as an alternative funding source for new programs.

- **Programmatic Reserve**: Use excess funds to establish a contingency for programs and projects. Specifically, this Reserve could fund unforeseen and unexpected needs such as cost overruns, local leveraging or matching for external funds, or other programmatic needs as required.

Conditions for Use of Reserves

- Temporary reductions in Reserves for cash flow purposes to even out the expected peaks or dips in revenues and expenditures are normal cyclical occurrences to be expected during the fiscal year, and do not constitute a use of reserves. Transfers to and from Reserves to account for such temporary cash flow fluctuations is within the discretion of the CFO.

- The CEO will have the discretion to authorize the use of reserves during the fiscal year up to the lesser of 10% of the year's total budgeted costs, or $100 million, for the following purposes:

  1. Cover increases in power supply expenses due to spikes in costs and/or due to higher customer demand;

  2. Meet any margin or collateral posting requirements under energy supply contracts; and

  3. Provide resources to meet emergency expenditures.

- Any further use of reserves as necessary or desirable, must be recommended by CEO to the Board for approval of such use.

- Any use of the reserves under the CEO's authority shall be reported to the Board at the next regularly scheduled meeting.

Policy Review: SDCP staff will complete a periodic review of this Financial Reserve Policy to ensure that the policy meets the needs of the organization.