

FINANCIAL RESERVES POLICY UPDATE

August 13, 2024



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STAFF RECOMMENDATION

- Adopt a resolution amending Council Policy 1-24, San José Clean Energy Financial Reserves Policy, to establish a Rate Stabilization Reserve for the San José Clean Energy program and make technical and clarifying changes.

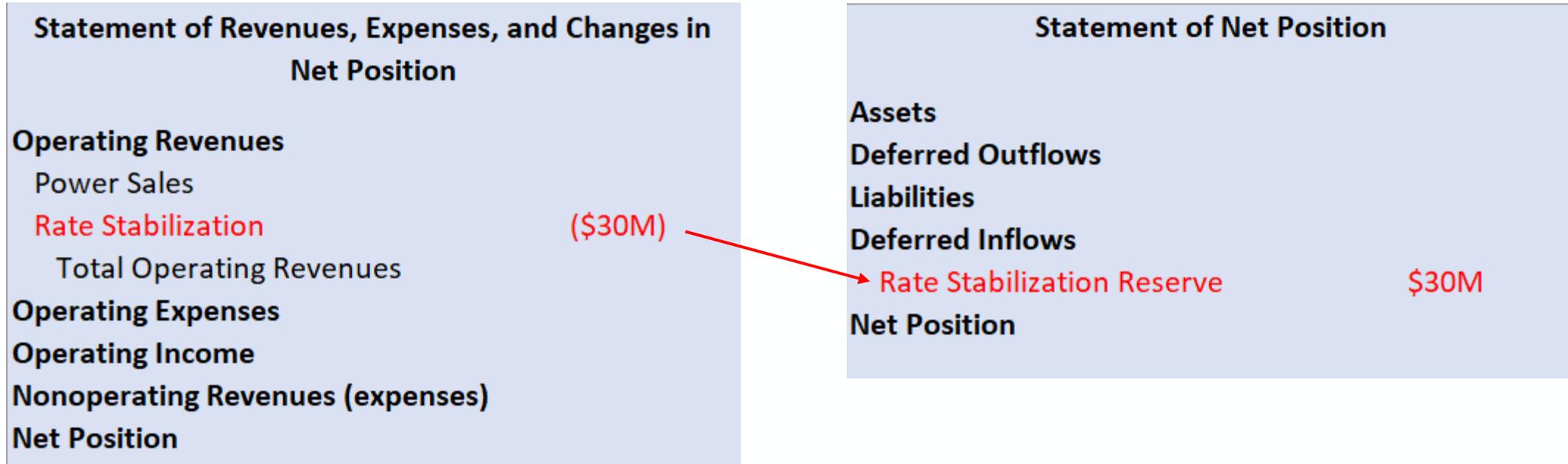
RATE STABILIZATION RESERVE (RSR)

- Financial tool used by regulated utilities who set rates according to cost of service to manage fluctuations in costs or revenue
- Purpose is to keep rates stable for customers considering expense fluctuations (i.e., PCIA, market cost of energy) while maintaining debt coverage ratios and positive net position
- Accounting in accordance with GASB 62, consulted with auditors (MGO) on policy and implementation



RSR – INDICATIVE EXAMPLE (1 OF 2)

Deferral Year – defer \$30M from revenue



Note: dollar values for illustrative purposes only, actual deferral for FY24 will be no more than \$50M.

RSR – INDICATIVE EXAMPLE (2 OF 2)

Withdrawal Year – Recognize \$10M in revenue

Statement of Revenues, Expenses, and Changes in Net Position	
Operating Revenues	
Power Sales	
Rate Stabilization	\$10M
Total Operating Revenues	
Operating Expenses	
Operating Income	
Nonoperating Revenues (expenses)	
Net Position	

Statement of Net Position	
Assets	
Deferred Outflows	
Liabilities	
Deferred Inflows	
Rate Stabilization Reserve	\$20M
Net Position	

Note: dollar values for illustrative purposes only

MECHANICS AND REPORTING (1 OF 2)

Deferrals at year end

- Allowable only when net position is greater than 5% of total revenues for the year
- Reserve balance capped at 10% of total revenues for year

Withdrawal at any time during year

- As necessary to satisfy any legal covenants, contractual obligations, or to maintain investment grade credit ratings



MECHANICS AND REPORTING (2 OF 2)

Reporting

- Source and Use of Funds Statement in Proposed and Adopted Operating Capital Budgets and Annual Report
- SJCE quarterly and annual financial statements
- During annual rate setting process
- Quarterly information memoranda to Council on SJCE regulatory compliance and power procurement



LEGAL CONSIDERATIONS

- Reserves have been held to be a legitimate cost of electric service and are usually funded by charging a certain margin above other costs.
- Proposition 218 (1996) has an explicit exemption for gas and electric service fees
- Proposition 26 (2010) does generally apply to community choice aggregators like SJCE, with an exception for charges that do not exceed the reasonable costs of providing service.
 - In a recent court challenge of CCA rates under Prop 26, the reasonable costs of the CCA included a rate stabilization reserve.

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