

FOR BOARD ACTION

Agenda Item # 5

Meeting Date:

1/25/11

SUBJECT:

Establish Cash Reserve Designations for 2010 Year End Results

PREPARED BY:

Susan Parker, Director of Corporate Services

ITEM DESCRIPTION:

Using the existing Board Financial Liquidity Policy, management is recommending establishing the appropriate reserve designations through formal Board approval process. The recommended reserve designations for the Electric and Water Divisions are attached for review along with the existing Financial Liquidity Policy.

The recommended change to the Working Capital Reserve for both the electric and water utility is to increase from 45 days to 60 days. A review of other utilities indicates that this can vary up to 90 days depending on the economic conditions in the area. In addition to the change in operating days, management is recommending designating the cash needed to replace coal this upcoming year for the electric utility.

The recommended change in Capital and Major Maintenance for both the electric and water utility is to increase the cash reserve for projects that were started in 2010 that will be completed in early 2011. It is typical for the utility to carry over capital projects only that were in process at year end.

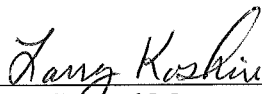
The final recommended change is in the water utility Special Capital and Major Maintenance. Management is recommending designating the funding for the future 4th Street Reservoir Replacement.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

Not Applicable

UTILITY BOARD ACTION REQUESTED:

Management recommends that the Utility Board approve the recommended cash reserve designations to be reflected in our year-end financial results.


General Manager

1-20-2011
Date

Electric Utility
Recommended Cash Reserve Designations

Section 1. Working Capital Reserve

1	45 days operating expense plus ILOT	17,800
2	Increase to 60 days operating expense plus ILOT	5,935
3	Anticipated Coal Purchase in July	<u>2,500</u>
4	Total Working Capital Reserve	26,235

Section 2. Contingency Reserve (single proxy event)

5	Impact of cool summer	<u>5,500</u>
6	Total Contingency Reserve	5,500

Section 3. Capital and Major Maintenance Reserve

7	50% of Average capital/maintenance reserve	4,600
8	Carryover capital projects from 2010	<u>1,680</u>
9	Total Capital and Major Maintenance Reserve	6,280

Section 4. Special Capital and Major Maintenance

10		-
11		<u>-</u>
12	Total Special Capital and Major Maintenance	-

13	<u>Clean Air Rider Levelized Collection</u>	4,200
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14	Total Recommended Designated Reserve Accounts	42,215
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15	Cash Balance at 12/31/2010	42,618
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Water Utility
Recommended Cash Reserve Designations

Section 1. Working Capital Reserve

1	45 days operating expense plus ILOT	1,079
2	Increase to 60 days operating expense plus ILOT	362
3	Total Working Capital Reserve	1,441

Section 2. Contingency Reserve (single proxy event)

5	Impact of wet summer	360
6	Total Contingency Reserve	360

Section 3. Capital and Major Maintenance Reserve

7	50% of Average capital/maintenance reserve	1,042
8	Carryover capital projects from 2010	345
9	Total Capital and Major Maintenance Reserve	1,387

Section 4. Special Capital and Major Maintenance

10	4th Street Reservoir Replacement	2,125
11		-
12	Total Special Capital and Major Maintenance	2,125

14	Total Recommended Designated Reserve Accounts	5,313
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	Cash Balance at 12/31/2010	6,921
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ROCHESTER PUBLIC UTILITIES BOARD POLICY STATEMENT

POLICY SUBJECT: Financial Liquidity Policy

POLICY OBJECTIVE:

The Board recognizes the need to develop access to liquid reserves, using financial targets as a guide to determining future revenue requirements. Funding levels may vary as circumstances dictate.

POLICY STATEMENT:

The Board intends to establish the types and levels of reserves needed to cover various risks and needs. These reserves, and their levels, are intended as guides only, and are meant to apply under normal circumstances. However, the Board intends to work with the General Manager to take the necessary steps to attain the reserve levels established in this board policy. The required reserves may be a combination of internally financed reserves and access to external liquid reserves.

1. Working Funds Reserve. Ordinarily, this reserve is used to handle the day-to-day cash flow activities of the utilities. The target amount for this reserve is forty-five days of the current year's budgeted annual operating expenses plus in lieu of tax payments. Transfers and replenishments between this and the other reserves occur as needed.
2. Contingency Reserve. This reserve is used for emergency circumstances as needed, and as determined by the Board and the General Manager. (Examples of emergency circumstances include: Loss of a large revenue customer; Significant increase in fuel prices; Loss of a generating unit for a long time at a critical time, etc.) The amount of this reserve is based on the estimated financial impacts of a single proxy emergency event.
3. Capital and Major Maintenance Reserve. This reserve is meant to pay for that portion of the current year's external expenditures for typical annual capital and major maintenance projects that is *not* externally financed and that the current year's revenues cannot finance. This reserve will equal fifty percent of the average of the external expenditures for typical annual capital and major maintenance projects that is not externally financed for the first two years in RPU's current five year capital and major maintenance plan.
4. Special Capital and Major Maintenance Reserve. This reserve is meant to pay for that portion of significant capital and major maintenance projects' external expenditures that is *not* externally financed. There will be one reserve for each significant project. Each reserve will be funded over the number of years, and up to a certain amount of the project's planned total expenditures, as determined by

the Board and the General Manager for each significant project. These reserves will be set up and used only as needed.

The General Manager will have the authority to move funds among all the reserves. When practical, the General Manager will consult with the Board before moving funds involving the *Contingency Reserve*. In that case he will report to the Board as soon as practical when he authorized such transactions without first informing the Board.

Ordinarily, the order of replenishment among these reserves is as follows:

1. Working Funds Reserve
2. Capital and Major Maintenance Reserves
3. Contingency Reserve
4. Special Capital and Major Maintenance Reserves

Annually at budget time the General Manager will recommend funding levels for each reserve, the percentage variation from the targets that should be considered acceptable, timeframes within which to expect to reach targeted levels, etc.

This policy is intended as a guide only. The reserve levels are meant to be long-term average balances. It will usually take several months to achieve the revised reserve levels this policy requires (based on annual recalculations due to updates to RPU's long term plans). There will be times when the reserve balances will fall outside the established acceptable levels. The General Manager will advise the Board on various matters related to the reserves, such as whether a current deviation from the established acceptable levels are expected to be short-term or whether any action needs to be taken, etc.

EFFECTIVE DATE OF POLICY:

April 27, 1999

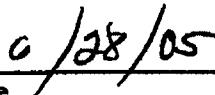
DATE OF LAST POLICY REVISION:

June 28, 2005

POLICY APPROVAL:



Board President



Date