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# District Standard: Establishing the Minimum Balance of the Retail Rate Stabilization Fund (a cash reserve policy)

Board of Directors Meeting  
Strategic Business Matters  
May 2023

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Nebraska Public Power District  
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# Background Information:

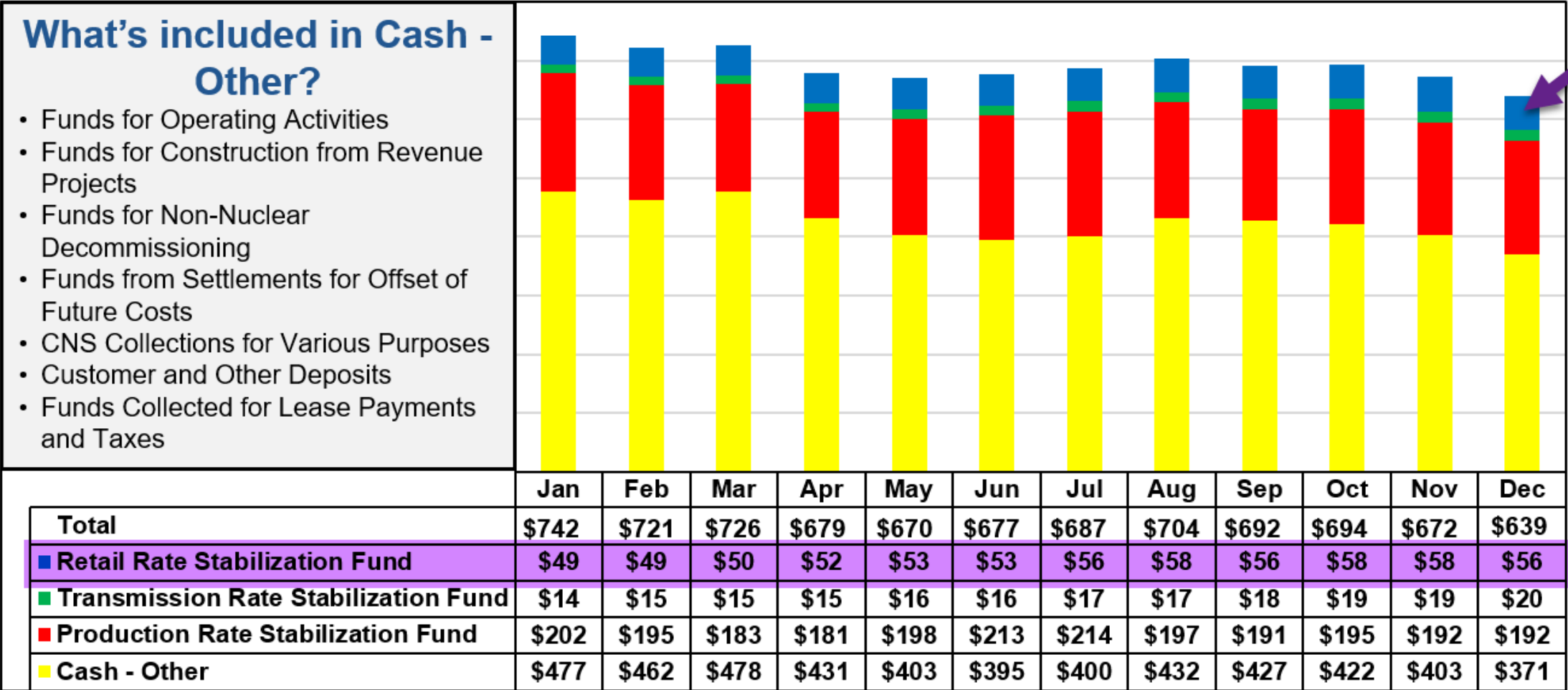
- Retail previously established an operating range (based on a percentage of revenues) and criteria for uses of Retail Rate Stabilization Funds (RSF) in the Road to Excellence
- Because Retail's operating funds are consolidated with all corporate funds, it is not possible to develop a "Retail" Cash Reserve Policy
- A methodology for the Retail RSF has been developed which mimics a "cash reserve policy"
- Ultimate goal of the standard is to establish a methodology to determine the minimum balance for the Retail RSF which recognizes risks and other inputs

# What is the Retail RSF?

- The Retail RSF is used to manage rate volatility by minimizing impacts related to:
  - Catastrophic events
    - Wind, ice, storms, equipment failure, etc.
  - Capital market disruptions
  - Reduction in demand and energy sales due to abnormal weather patterns and/or other external factors (i.e. pandemic, etc.)
  - Loss of a major customer
  - Business continuity disruptions
  - Unexpected regulatory or other costs

# What bucket of funds are we talking about?

## 2022 DECEMBER CASH BALANCE



# Why do we need a minimum balance for the Retail RSF?

- Maintain sufficient funds to support operations
- Manage changes to base rates
- Mitigate unexpected consequences

# How often will the minimum balance evaluation occur?

- At least annually, generally in concurrence with Rate Outlook to facilitate decision making with respect to:
  - Rate changes
  - Production Cost Adjustment pass through to Retail customers
  - Funding of capital projects
  - Issuance of debt
- More often as needed or as circumstances change. Examples of such could include, but are not limited to:
  - Loss or addition of large load customer
  - Removal or addition of new potential liability
  - Increasing risk of a certain industry

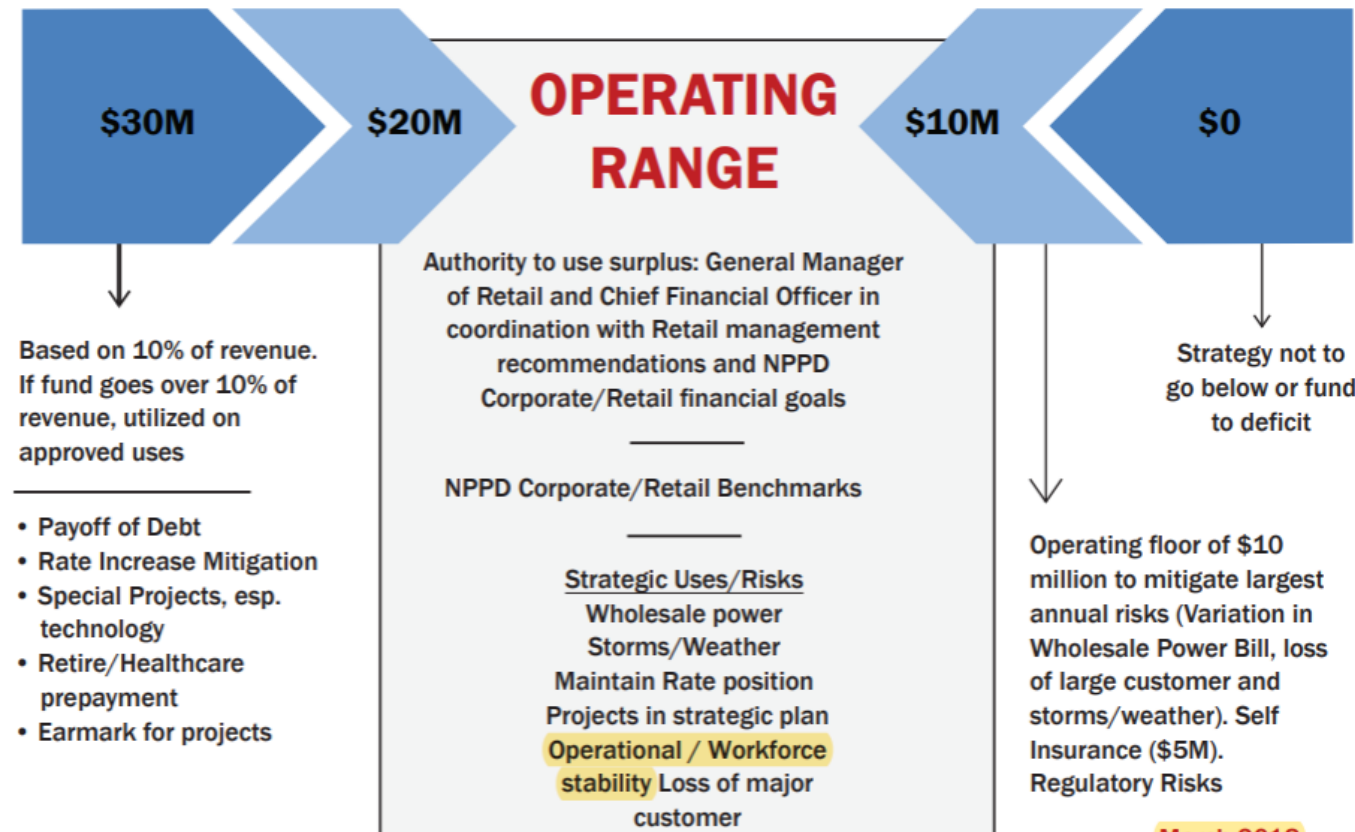
# Previous Retail RSF Methodology



## Financial Stability

### ▶ Rate Stabilization Fund

We take the use of any rate stabilization funds very seriously. We have created rules of use to help best utilize customer dollars continue to successfully serve customers now and into the future. Understanding what customers want and considering service to be of value and equitably priced, now and in the future, will also help drive business direction.

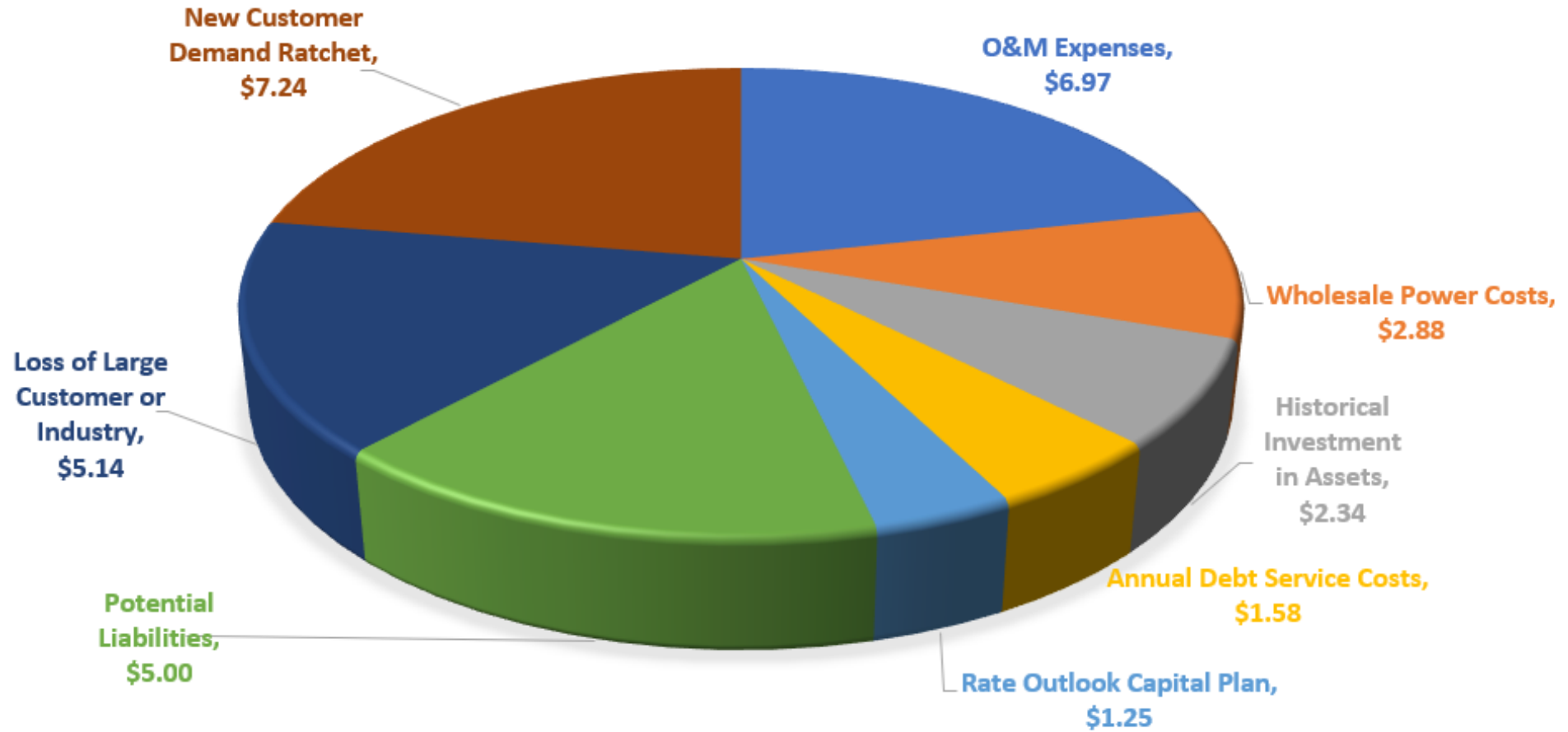


March 2018



# New Retail RSF Methodology

## COMPONENTS OF THE 2022 MINIMUM BALANCE CALCULATION (IN MILLIONS \$)



**2022 RETAIL RSF MINIMUM BALANCE: \$32.4M**



# Understanding the inputs...

Component	Why is it included?	How is it calculated?	2022 Amount
Operating & Maintenance Expenses	Timing difference between incurrence of O&M expenses and collections from customers for service provided.	~45 days of the average historical actual and rate outlook plan O&M expenses	\$6.97M
Wholesale Power Costs	Timing difference between incurring Wholesale Power Costs and collections from customers for service provided.	~45 days of average historical actual and planned WPC, reduced by amounts calculated for Large Customer Loss & Large Customer Demand Ratchet, multiplied by an agreed upon risk factor (15% for 2022)	\$2.88M
Historical Investment in Assets	Catastrophic occurrence would likely impact Retail assets. Storm projects are not included in annual budget and are generally funded by reductions in other projects. In FEMA declared disasters there is usually a delay between expenses incurred and reimbursement.	Retail historical capital asset value, including an estimated share of miscellaneous general plant assets, multiplied by an agreed upon risk factor (0.5% for 2022)	\$2.34M
Annual Debt Service Costs	District Financial Management Policy and bond resolutions do not require all debt service costs to be included in a reserve fund.	Subsequent year debt service requirement per rate outlook plan, multiplied by an agreed upon risk factor (50% for 2022)	\$1.58M
Rate Outlook Capital Plan	Unanticipated capital expenses NOT related to repairs/replacements from catastrophic events.	Retail's annual capital target multiplied by an agreed upon risk factor (10% for 2022)	\$1.25M

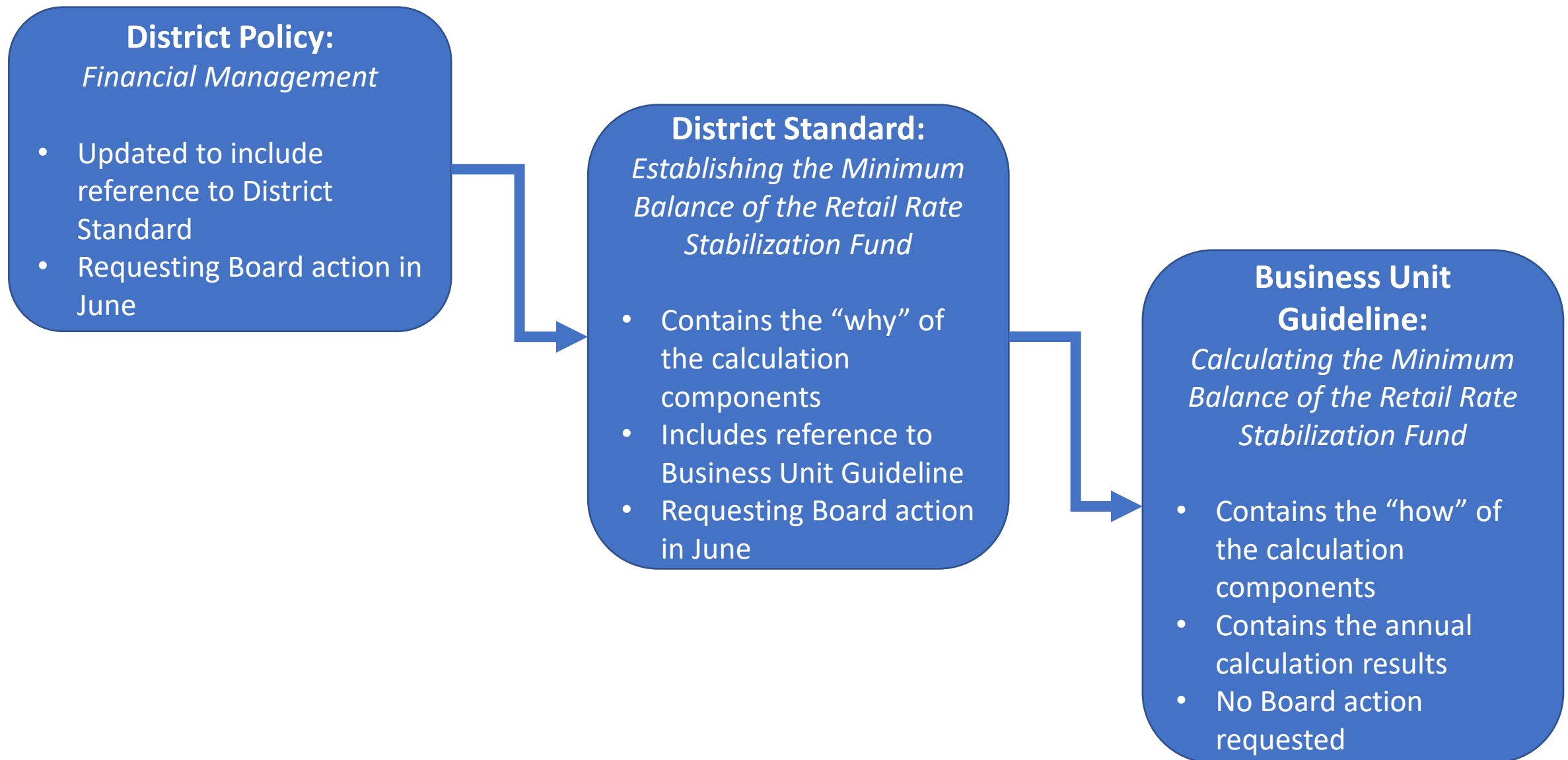
# Understanding the inputs continued...

Component	Why is it included?	How is it calculated?	2022 Amount
Potential Liabilities	Liabilities not recorded on the financial statements that, if realized, would have a significant impact to Retail.	Case by case basis	\$5.00M
Loss of Large Customer or Industry	Cover the cost of services provided to customers, but not yet paid, especially in the event of a large customer or industry ceasing operation unexpectedly, entering bankruptcy, etc.	Two times the largest customers' monthly bill with special consideration if multiple large customers are within the same industry	\$5.14M
Large Load Customer Demand Ratchet	A new large load customer would likely increase the Production & Transmission demand ratchet in the year fully energized. The increased demand ratchet would be included in rates paid by Retail in the subsequent year. If the large load customer were to terminate services after the new (higher) demand ratchets were established, Retail would no longer have the revenues in the subsequent year to cover the rates set by the higher demand ratchet.	Estimated stranded costs for Summer Production Demand GFPS, Transmission Line, Ancillary Service Reactive Supply and Transmission Substation based on current load of the largest customer	\$7.24M
Other	Allow future flexibility to include risks that have not yet been identified or considered.	None currently identified	\$0.00M
<b>2022 Minimum Balance Requirement for the Retail Rate Stabilization Fund</b>			<b>\$32.40M</b>

# When will the Retail RSF be used?

- The Retail Rate Stabilization Fund (RSF) can be used in the event any of the previously mentioned risks arise and current operational funds are not sufficient.
- Retail RSF amounts above the minimum are not required, but are permitted to be used for Retail's strategic initiatives.
- Oversight of the Retail RSF will be by the Retail General Manager (GM), Chief Financial Officer (CFO), and Chief Customer Officer (CCO).
- CEO and Board approval occurs annually during the Rate Outlook and Budget process.

# Structure and supporting documents



# Next Steps

- Incorporate any feedback received
- Request action at June Board meeting
- Share with Retail Advisory Committee



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## Questions

Stay connected with us.



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