



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Adopt Resolution Reviewing and Maintaining the Current Electric Utility Reserve Policy

MEETING DATE: June 4, 2014

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Adopt a resolution reviewing and maintaining the current Electric Utility Reserve Policy.

BACKGROUND INFORMATION: In March 2011, the City Council approved Resolution 2011-39 approving a financial reserve policy as follows:

Fund Designation	Basis	For FY 2011
Operating Reserve	90 days cash on hand	\$18,900,000
Capital Reserve	Largest distribution system contingency	\$500,000
NCPA – General Operating Reserve	As identified by NCPA plus allowance for unanticipated studies	\$9,300,000
Total Target		\$28,700,000

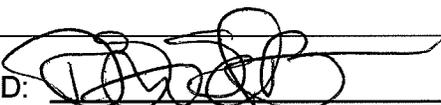
This policy provides for an updated assessment of the targets identified above every three years with a report to Council. Since 2011, the formula for establishing the Electric Utility (EU) reserve policy has remained unchanged. The actual dollar amounts have been reviewed and updated each year by the Risk Oversight Committee (ROC) in accordance with annual budget amounts.

On May 19, 2014, the ROC recommended that the formula for calculating the reserve targets be maintained until such time as the financial model and cost of service analysis is completed for the EU and that the dollars associated with the reserve policy be updated as follows:

Fund Designation	Basis	For FY 2015
Operating Reserve	90 days cash on hand	\$17,080,000
Capital Reserve	Largest distribution system contingency	\$1,000,000
NCPA – General Operating Reserve	As identified by NCPA plus allowance for unanticipated studies	\$5,600,000
Total Target		\$23,680,000

Changes to the proposed dollars associated with the reserve policy include:

Operating Reserve: This amount represents the dollars required to provide 90 days of operating cash and is dependent upon changes in operating expenditure budgets from year to year.

APPROVED: 
 Stephen Schwabauer, Interim City Manager

Capital Reserve: This amount represents the approximate cost to procure, deliver and install a substation transformer in the event of catastrophic failure and has been updated based on current cost information provided to the EU.

NCPA – General Operating Reserve (GOR): This amount represents NCPA’s recommended reserve target level in addition to EU’s estimate of unanticipated studies/activities. NCPA’s recommendations are based on a number of factors, including market power volatility, replacement power cost differential between average and dry year generation and insurance deductibles/loss.

As of March 31, 2014, the EU had total cash reserves of \$21.4 million.

FISCAL IMPACT: N/A

FUNDING AVAILABLE: N/A



for Elizabeth A. Kirkley
Electric Utility Director

PREPARED BY: Melissa Price, Rates & Resources Manager

EAK/MP/lst

RESOLUTION NO. 2014-88

A RESOLUTION OF THE LODI CITY COUNCIL
 REVIEWING AND MAINTAINING THE CURRENT
 ELECTRIC UTILITY RESERVE POLICY

WHEREAS, in March 2011, the City Council approved Resolution 2011-39 approving a financial reserve policy as follows:

Fund Designation	Basis	For FY 2011
Operating Reserve	90 days cash on hand	\$18,900,000
Capital Reserve	Largest distribution system contingency	\$500,000
NCPA – General Operating Reserve	As identified by NCPA plus allowance for unanticipated studies	\$9,300,000
Total Target		\$28,700,000

WHEREAS, this policy provides for an updated assessment of the targets identified above every three years with a report to Council; and

WHEREAS, since 2011, the formula for establishing the Electric Utility (EU) reserve policy has remained unchanged with the actual dollar amounts reviewed and updated each year by the Risk Oversight Committee (ROC) in accordance with annual budget amounts; and

WHEREAS, on May 19, 2014, the ROC recommended that the formula for calculating the reserve targets be maintained until such time as the financial model and cost of service analysis is completed for the EU and that the dollars associated with the reserve policy be updated.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby approve the review and maintenance of the current Electric Utility Reserve Policy as follows:

Fund Designation	Basis	For FY 2015
Operating Reserve	90 days cash on hand	\$17,080,000
Capital Reserve	Largest distribution system contingency	\$1,000,000
NCPA – General Operating Reserve	As identified by NCPA plus allowance for unanticipated studies	\$5,600,000
Total Target		\$23,680,000

Dated: June 4, 2014

I hereby certify that Resolution No. 2014-88 was passed and adopted by the City Council of the City of Lodi in a regular meeting held June 4, 2014, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Johnson, Mounce, Nakanishi, and Mayor Katakian

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None

A handwritten signature in black ink, appearing to be 'R. J. Olson', written over a horizontal line.

RANDI JOHL-OLSON
City Clerk