

1.00 OVERVIEW

- 1.01 Purpose:** To define the financial responsibilities of the electric and water utilities of the Board of Public Utilities, (KCBPU)
- 1.02 Scope:** This policy applies to both the electric and water utilities of the Board of Public Utilities, and their divisions, departments, and subsections.
- 1.03 Applies to:** It is the responsibility of the General Manager to maintain the requirements of this policy.

2.00 STATEMENTS

- 2.01 Statement:** The electric service and the water service sections of the Utility are charged with responsibility of providing for their own operating and maintenance expenses, their own construction programs, and capital improvements as well as to maintain compliance with the provisions of this policy and requirements of the Second Amended and Restated Indenture of Trust (Bond Indenture of Trust). Each utility service will be evaluated on a financial basis and on its own merits as a stand-alone unit of the Utility, as its performance will be measured against each of the stated goals and objectives contained in this policy statement.
- 2.02 Statement:** Each utility (electric service and water service) will provide for a revenue requirements study that examines projected outlays for operation, maintenance, construction, fund reserves, debt service requirements and other pertinent financial data for a five-year planning period and recommends a level of revenue and funding sources sufficient to cover such outlays. This internal study will be updated annually to examine the ensuing five-year period of projections. Should a revenue requirements study be prepared that recommends a revision to existing rates or rate structure, it shall be reviewed by a professional consulting engineer before its recommendations are presented in a public hearing and for consideration by the Elected Board.
- 2.03 Statement:** Each utility (electric and water) will provide for a cost-of-service study as needed but in no event less often than every five-years. Each utility will have a cost-of-service study performed by a professional consulting engineer. Should a cost-of-service study be prepared that recommends a revision to existing rates or rate structure, it too shall be reviewed by the professional consulting engineer before its recommendations are presented in a public hearing and for consideration by the Elected Board.

volatile power supply costs. The Electric Utility shall maintain an ERC reserve equal to one hundred twenty (120) days of annual expenditures recovered through the Energy Rate Component (ERC). The annual target reserve amount shall be calculated by dividing the current year budget for expenditures recovered through the ERC by 365 and multiplying by 120. Staff will monitor the Energy Rate Component (ERC) rider and administer prudent adjustments in a timely manner as calculated by the current published rate formula.

Water Operating Reserve: The Water Utility shall maintain a cash reserve for operation and maintenance (O&M) expenses of one hundred (100) days or better of annual O&M expenditures, measured at the end of each fiscal year.

Amounts in the Rate Stabilization Fund, Capital Debt Reduction Fund, System Development Reserve and comparable funds and other cash equivalent assets of the Utility are available for such purpose and may be considered in determining whether such Operating Reserves are maintained at such level.

- 2.11 Statement:** Operating Reserve Levels and Control Measures:
 This statement is under review and currently evaluating the control measures.
- 2.12 Statement:** Each section of the Utility is to propose an annual budget that sets aside a Construction Reserve allocation of fifty (50%) percent of the normal, on-going construction costs.
- 2.13 Statement:** The Utility should endeavor to prepare for any major construction project by setting aside monies in a Capital Debt Reduction Fund or such other fund as may be designated by the Utility to reduce the rate impact to customers.
- 2.14 Statement:** The Utility shall set aside available monies when deemed prudent and necessary into the Rate Stabilization Fund or such other fund as may be designated by the Utility to have cash available to meet future needs of the Utility and reduce the rate impact to customers. Each section of the Utility should endeavor to maintain a Rate Stabilization Fund balance of approximately 2/12ths annual base revenue (exclusive of revenue received under the Energy Rate Component rider, Environmental Surcharge, PILOT, or taxes). Monies in the Rate Stabilization Fund may be used, and fund balances in the Rate Stabilization Fund may be funded and/or replenished, subject to all applicable requirements, policies, and procedures of the Utility, including but not limited to the Bond Indenture of Trust, the Electric Rate Stabilization Rider, or applicable laws. Monies in the Rate Stabilization Fund shall be included in the available cash balance for the purposes of calculating days of cash in the O&M Reserve Fund.

3.00 REVISION HISTORY

Prior Version # [Effective Date]	Owner [Author]		Approver	Board Approval Required <input checked="" type="checkbox"/> Yes
11/08/2006	Name		Don Gray	
	Title		General Manager	
Current Version # [Effective Date]	Owner [Author]		Approver	
1 06/??/2023	Name	Lori Austin	William Johnson	
	Title	CFO/CAO	General Manager	
Description of Changes:				
Owner Signature/Date				
General Manager Signature/Date				