

RESERVE POLICY

I. PURPOSE

Adequate reserves will enable MBCP to satisfy working capital requirements, procure energy at competitive rates, adhere to loan covenants, cover unanticipated expenditures, and support rate stability.

The Reserve Policy outlines the appropriate types and target levels (minimum and maximum) of unrestricted, undesignated reserves as prescribed in the following policy.

The four most important purposes of a reserve policy are to:

1. **Plan for contingencies.** MBCP will maintain sufficient reserves to minimize rate increase due to market volatility (power supply shocks or maintain rate competitiveness), weather impacts on demands, economic downturns, emergencies (such as natural disasters), and regulatory changes;
2. **Maintain good standing with rating agencies.** MBCP will maintain sufficient reserves to obtain, maintain, or improve credit ratings;
3. **Avoid interest expense.** Having sufficient reserves avoids interest expense to cover short-term cash shortfalls using reserves instead of debt; and
4. **Ensure cash availability when revenue is unavailable.** Reserves can be used to bridge times of the year that normally see temporary low levels of cash. Maintaining adequate reserves can balance intra-period differences in cash availability.

II. POLICY

Reserve Target Levels

MBCP shall maintain a minimum reserve balance equal to 30% of total operating budget expenditures, with a goal of increasing the reserve to 50% of total operating budget expenditures. The maximum reserve is 75% of total operating budget expenditures.

Funding the Target Amount

Funding reserves will generally come from excess revenues over expenditures or one-time revenues.

Conditions for Use of Reserves

MBCP will strive to avoid the appropriation of reserve balance for recurring operating expenditures.

The reserve balance may be used to:

1. Provide revenues to make up for unanticipated revenue shortfall of spikes in power supply expenses;

2. Provide temporary resources in the event of an economic downturn while expenditure reductions and/or rate adjustments are implemented; and
3. Provide resources to meet emergency expenditures.

Replenishment of Reserves

Reserve levels below the minimum target would leave MBCP exposed to significant operational risks. Should MBCP draw down reserves below the minimum target level, MBCP will implement plans to return reserves to their target level within two years.

Excess Reserves

If reserve funds exceed the maximum level, MBCP will consider enhancing programs expenditure, capital improvements, pay down existing debt, offset other long-term liabilities, and reduce rates.

Reserves between Minimum and Maximum

No other action by MBCP would be required if reserves are between the minimum and maximum level.

Periodic Review of Targets

If the risk factors behind the target are eliminated or new risk factors emerge as a result of changes in the industry, legislation, or economic conditions, the basis of the reserve will be reviewed, and the funding level may be adjusted accordingly.

Reporting

Reserve levels will be monitored during the fiscal year and reported in the monthly treasurer reports. The reserve target levels will be analyzed annually, and over/under reserve determination shall be made in conjunction with year-end financial results. These results will be reports to the Boards as part of the year-end financial report presentation.